Financial History

The magazine of the Museum of American Finance

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An Exorbitant Privilege: Global Reserve Currencies

The Business History of US Healthcare

ISSUE 154 | SUMMER 2025

Investing A to Z:

Financial Education Series for Adults

virtual series

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July 15:	Investing 101
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July 29:	The Importance of Interest Rates and Markets
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Rendering of the Museum of American Finance's new home at Commonwealth Pier in the Boston Seaport, scheduled to open in July 2026. See related article, page 6.

Pembroke

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Summer 2025 MoAF Update

This spring and summer have been filled with exciting MoAF projects, especially the development of the exhibits for our new facility on Commonwealth Pier in the Boston Seaport. Our exhibits team has been working hard to create engaging exhibits that will be accessible to visitors of all ages and backgrounds. Please see page six to read more about our upcoming opening in Boston.

Message to Members

David J. Cowen | President and CEO

Also this spring, our Board elected two new trustees at its annual meeting in May. Wendy Cohn is a managing director in Fitch Ratings' Structured Finance Business Relationship Management group and is the co-head of North America Structured Finance Business responsible for managing issuer, banker and investor relationships for the Asset-Backed Securities (ABS) and Residential Mortgage-Backed Securities (RMBS) groups. Robert Robotti is the president and chief investment officer of Robotti & Company, who serves on the Board of Directors of several publicly listed portfolio companies and non-profit organizations. Wendy and Bob are welcome additions to our Board and are already making their mark on our Museum.

Fitch Ratings also began a three-year sponsorship of our Museum Finance Academy (MFA) program this spring. Participation was at a record high for the two sessions of the spring semester, and we awarded 12 scholarships to top achievers in the program. The award winners can be seen on the adjacent page. Fitch also invited the scholarship recipients to their office to receive their awards in person, and it was a memorable afternoon for all involved.

In June, Museum team members Robert Dinkelmann and Steven Rivera accompanied me to Pittsburgh, where we delivered our "Origins of the Capital Markets" presentation to a group of Fidelity staff and clients. We also displayed several interesting Pittsburgh-focused artifacts from our collection. The venue was the Heinz History Center—like us, an affiliate of the Smithsonian Institution—which enabled me to reconnect with my friend, their long-time President/CEO Andy Masich.

While in Pittsburgh, I also met up with American Numismatic Association (ANA) President Tom Uram, who lives there. Tom—along with involved ANA members Carlos Kearns and Patrick McBride—presented me with the ANA Presidential Award for "dedicated service to the numismatic family." Our organizations have been friendly for decades, and I was thrilled to receive this award, which reinforces our amicable relationship.

As we head towards the fall, stay tuned for a number of virtual and in-person events, which are already in the works. We hope to see many of you at our programs in the coming months, and in Boston next summer. $

Some of the Spring MFA scholarship recipients received their awards in-person at Fitch headquarters. Pictured left to right: Scott Rosenblatt (Fitch); scholarship recipients Zyair Doughtry, Michelle Lou and Sara Montaser; Linda Rapacki (MoAF) and Wendy Cohn (Fitch/MoAF Board).

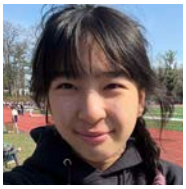
David Cowen receives the ANA Presidential Award. Pictured left to right: Patrick McBride, Tom Uram, David Cowen and Carlos Kearns.

Spring 2025 MFA Scholarship Winners

The Museum is proud to announce that the following students have earned merit scholarships as top achievers in the Spring 2025 semester of the Museum Finance Academy.

Name: Camila Leon
Grade: 11
Home Town: New Rochelle, NY
High School: The Ursuline School
Scholarship: $1,000

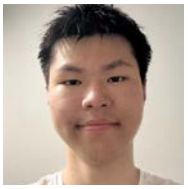
Name: Andy Xian
Grade: 12
Home Town: Manhattan, NY
High School: Stuyvesant High School
Scholarship: $1,000



Name: Vanna Lei
Grade: 11
Home Town: Manhattan, NY
High School: Stuyvesant High School
Scholarship: $500

Name: Sara Montaser
Grade: 11
Home Town: Manhattan, NY
High School: Fiorello H. LaGuardia High School
Scholarship: $500

Name: Mohammad Wajahat
Grade: 12
Home Town: Brooklyn, NY
High School: United Charter AMS 3
Scholarship: $500



Name: Hunter Wang
Grade: 11
Home Town: Brooklyn, NY
High School: James Madison High School
Scholarship: $500

Name: Ahmad Abu Laban
Grade: 12
Home Town: Manhattan, NY
High School: Michael J. Petrides High School
Scholarship: $250

Name: Zyair Daughtry
Grade: 12
Home Town: Brooklyn, NY
High School: East New York Family Academy
Scholarship: $250

Name: Michelle Lou
Grade: 11
Home Town: Manhattan, NY
High School: Fiorello H. LaGuardia High School
Scholarship: $250

Name: Allison Villareal
Grade: 11
Home Town: New Rochelle, NY
High School: The Ursuline School
Scholarship: $250

Name: Amirah Alexander
Grade: 11
Home Town: Brewster, NY
High School: Brewster High School
Scholarship: $100

Name: Ameena Lashkari
Grade: 11
Home Town: Long Island, NY
High School: John F. Kennedy High School
Scholarship: $100

MU$EUM OF AMERICAN FINANCE

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Museum Announces Plans for New Exhibit Headquarters at Boston's Commonwealth Pier

By Kristin Aguilera, Deputy Director

The Museum of American Finance has signed a 10-year lease for exhibit space in Boston, which will open to the public on July 1, 2026. Planning is now underway to develop and create the Museum's exhibits at Commonwealth Pier, the waterfront destination in Boston's Seaport. The Museum will occupy approximately 5,400 sf of exhibit space, with an additional 2,300 sf community room adjacent to the exhibit hall that will be available for classes and public programs. Entrance to all of the Museum's exhibits and programs in Boston will be free of charge—reflecting its core mission of making financial education accessible to all.

The Museum's opening in Boston marks the first time it will have a permanent exhibit headquarters since it left its former home at 48 Wall Street in New York City in 2018. The Museum is currently working with the renowned firm G&A Strategy and Design to create world-class exhibits in Boston that draw from the Museum's collections—while integrating the latest technologies in a partnership with the Fidelity Center for Applied Technology (FCAT).

Galleries will feature the following exhibits: Alexander Hamilton Experience and the Origins of the Capital Markets; History of the Financial Markets; US Currency; and a Personal Finance interactive exhibit. A rotating gallery will enable the Museum to explore timely topics pertaining to finance and economics, and to feature new acquisitions or the temporary display of unique and high-value artifacts. For the first year, the exhibit will highlight the importance of Boston and Massachusetts to the overall financial history of the United States. The exhibits will be guest curated by content experts Dr. Richard Sylla, Mark Higgins, Ric Edelman, Erich Umar and Rahul Arora.

"Visitors will leave our Museum with a greater understanding and appreciation for our nation's financial history—much of it centered in the Boston Harbor area—as well as knowledge that will help them better their own financial lives," said MoAF President/CEO David Cowen. "We are thrilled for our exhibits to be based in Boston

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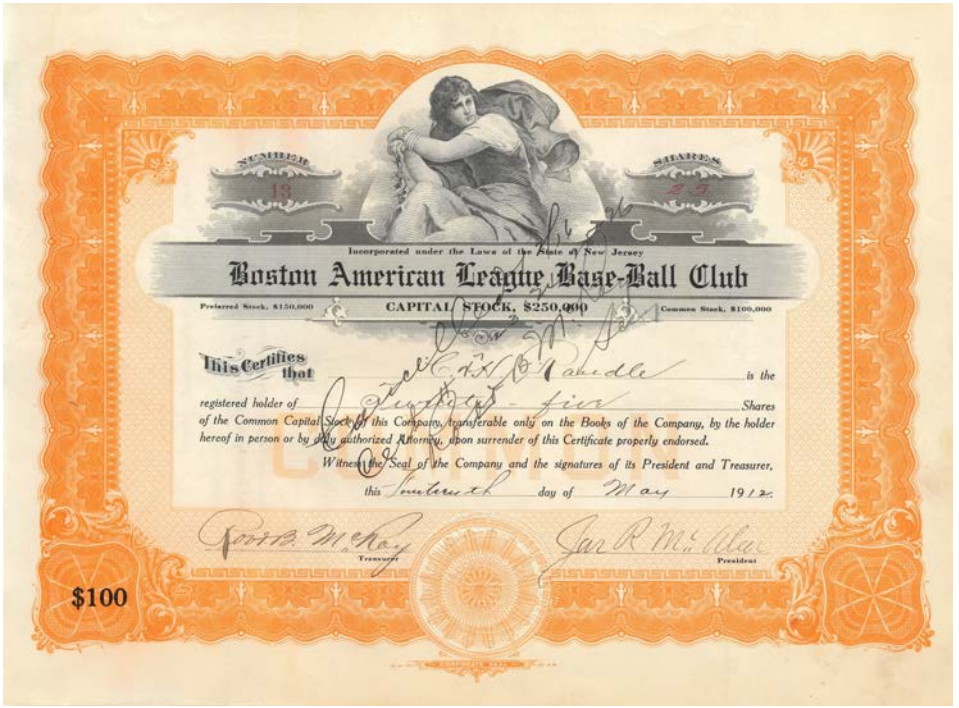
Rendering of the Museum's new home at Commonwealth Pier in the Boston Seaport, scheduled to open in July 2026.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This Certifies that
registered holder of
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Witness the Seal of the Company and the signatures of its President and Treasurer,
this
day of May 1912.
Treasurer
President
$100

Collection of the Museum of American Finance

Stock certificate issued by the Boston American League Base-Ball Club (The Boston Red Sox), dated May 1912. The certificate for 25 shares is signed by treasurer Robert McRoy and club president James McAleer, a former major league pitcher and manager, who was an owner of the club from 1911–1913.

Collection of the Museum of American Finance

Bond certificate issued by the Boston Terminal Company to finance the design and construction of Boston's South Station, 1897.

and will ensure that Commonwealth Pier becomes a destination for school groups, the community and tourists."

The Museum's events and educational initiatives—offered for free in both virtual and in-person formats—currently reach more than 10,000 students and adults annually. The Museum will add Boston-based programs via partnerships with Boston area community organizations and educational institutions to supplement its existing programming.

"We are delighted to have a museum with such an important educational mission join Commonwealth Pier. In recent years, there's been a spotlight on the urgent need to help people of all ages improve their financial literacy. We're thrilled the Museum will be offering free admission and programming," said Kristan McLaughlin, director of asset management at Pembroke, the international real estate business that is developing Commonwealth Pier. "The revitalization of Commonwealth Pier celebrates its meaningful history, as well as our present and future. How appropriate to have the Museum of American Finance as part of our community—a literal treasure chest of historic artifacts that bridges to the future through education and its use of technology."

Pembroke's vision for Commonwealth Pier is to create a vibrant, multi-use waterfront destination that inspires exploration and connection to Boston Harbor, the neighborhood, history, art and innovation. In addition to the Museum, there will be new restaurants and shops, a public waterfront plaza and an enhanced Harborwalk, all of which will foster community and be activated with year-round programming.

Sponsorship and naming opportunities are currently available for the Museum's exhibits and programs in Boston. For more information on this project, visit www.moaf.org/Boston. $

Why Kemmerer, Wyoming Matters: Part 4

By Brian Grinder and Dan Cooper

On June 10, 2024, an Airbus H145 helicopter broke the silence over the sagebrush-covered hills surrounding Kemmerer, Wyoming. It is rare to see such a magnificent chopper landing at the Kemmerer airport, but here it was on a beautiful late spring afternoon bearing billionaire Bill Gates. A black SUV stood ready to whisk the co-founder of Microsoft to the groundbreaking ceremony for TerraPower's first Natrium nuclear reactor.[1]

After the ceremony, Gates returned to downtown Kemmerer, where he played a game of Texas hold'em with some of the locals at the Wyoming Fossils store. One of the co-owners of the store described Gates as "a regular guy and we just wanted to play cards with him." After the game, the "regular guy" returned to his chopper and was spirited away from the remote Wyoming town.

According to Tara Nieder, TerraPower's Natrium project director, "We looked at multiple locations within Wyoming [where] Pacificorp[2] had retiring coal plants, but Kemmerer was the most welcoming." The Naughton plant, located about four miles southwest of downtown Kemmerer, was scheduled to be mothballed in 2036. The plant, along with the nearby coal mine, provided most of the employment opportunities in the area. Now, with both facilities facing closure, Kemmerer was in danger of becoming a ghost town.

TerraPower's decision to build its first small modular reactor (SMR) near Kemmerer promised to breathe new life into the region. The Kemmerer-Diamondville area has a population of about 3,000 people. The construction phase of the Natrium plant will create about 1,600 temporary jobs, and when the plant is completed in 2030, it will provide between 200 and 250 permanent positions. This translates into an economic boom for the area, but it brings with it a number of challenges.

The first sign of strain appeared during the groundbreaking ceremony, when Terrapower reserved every room in the area's largest hotel—the 80-room Best Western—for the event. This little town experienced significant growing pains. A severe housing shortage will be mitigated by the construction of modular housing, but that has not prevented existing home prices from skyrocketing.

Increasing demands on the town's infrastructure will not be remedied so quickly. The aging sewer system cannot handle the population increase and will need to be replaced. A new system will cost between $40 and $60 million. The town's crumbling streets are also a problem. In some places, the roads are in such bad shape they have been blocked off.

The economic boom would not be complete without outside speculators who are busy snapping up homes and business buildings in the hopes of making a quick buck. An increase in crime is also expected, which will place additional burdens on state and local law enforcement.

In spite of these challenges, more economic opportunities are finding their way to the area. TriSight AG, a well-funded organization, plans to set up operations to process coal into organic compounds that will be used in their skincare product line known as "Heros." The recent change in presidential administrations has brought about a reprieve for the coal industry. While the Biden administration sought to severely curb or eliminate coal as a power source, the Trump administration has shown support for the industry. As a result, Pacificorp has decided not to close the Naughton plant in 2036. Although there are no plans to return to its coal-fired past[3], this decision will preserve most of the current jobs at the plant for an indefinite period of time. Sabey Data Centers is also contemplating an artificial intelligence (AI) data center near Kemmerer to be powered by future TerraPower nuclear plants. And, of course, additional TerraPower nuclear plants may also be built near Kemmerer. The future looks bright.

Kemmerer, Wyoming's economic turnaround is a direct result of the change in attitude towards nuclear energy. Although the Greenpeace website[4] still argues that "Nuclear power is dirty, dangerous and expensive," many climate scientists and

> Hello from Kemmerer, Wyoming! It's been just over a year since my last visit, and I'm blown away by how much has changed.
>
> One of the oldest buildings in downtown Kemmerer—once an opera house—has been restored and is now home to a mercantile and a bakery. Just down the street, the owners of the local coffee shop have purchased an [sic] 100-year-old building to expand their operation. A law office has opened, and city officials tell me that plans are moving forward for new multi- and single-family housing developments.
>
> I'm thrilled to see so much economic growth happening, because Kemmerer will soon be home to the most advanced nuclear facility in the world. I just left the groundbreaking ceremony for the first-ever Natrium plant, which will bring safe, next-generation nuclear technology to life right here in Wyoming. It's a huge milestone for the local economy, America's energy independence and the fight against climate change.
>
> *— Bill Gates*

activists are now embracing it as part of the solution to the climate crisis.

Political scientist Bjorn Lomborg describes the prevailing consensus on what to do about climate change as "climate panic," and he warns that if we continue to treat climate change as an apocalyptic, existential threat to humanity, we will waste hundreds of trillions of dollars annually with little resulting climate improvement. Worse yet, he argues that "choosing climate policies over growth policies doesn't just do nothing. It means more people die avoidable deaths." According to Lomborg, climate change is a problem that needs to be addressed, but it is not the most important problem we face today.

Economic booms and busts are nothing new to western communities that depend on extractive industries. However, those booms and busts are exacerbated when presidential executive orders swing from apocalyptic climate policies to "drill baby drill" climate change hoax positions under different administrations. This is an area where the US Congress needs to step up and draft bipartisan laws that set sensible long-term climate policies that are less susceptible to presidential executive orders. A cost effective, lifesaving, climate-improving approach would also spare energy-producing towns such as Kemmerer from the extremes of boom-and-bust economic cycles.

The TerraPower Natrium project near Kemmerer is just the tip of the nuclear energy iceberg. Other companies are developing innovative SMRs that will soon be entering the construction phase. Decommissioned nuclear facilities at Three Mile Island are being recommissioned to provide energy for Microsoft's AI initiatives. The US Department of Energy is working to speed up the approval process for new nuclear power plants. Yet in our mad dash toward an AI-dominated world powered by nuclear energy, one can't help but wonder: What could possibly go wrong? $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

TerraPower

Rendering of the TerraPower Natrium plant.

Dustin Bleizeffer/WyoFile

View of downtown Kemmerer from Saphire Street.

Notes

1. Those familiar with the Periodic Table of Elements will recognize Natrium (Na) as the designation for sodium. The TerraPower plant will be sodium-cooled instead of water-cooled.
2. Pacificorp is a subsidiary of Berkshire Hathaway.
3. The plant is currently powered by natural gas instead of coal.
4. The Greenpeace position on nuclear energy is available at www.greenpeace.org/usa/climate/issues/nuclear.

Library of Congress

The old Stock Exchange Club bar, just down the street from the JCPenney "mother" store, is symbolic of the small weather-beaten town of Kemmerer.

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AN EXORBITANT PRIVILEGE

The History of Global Reserve Currencies

By Peter C. Earle

With Donald Trump's return to the White House in January 2025, renewed focus has been placed on a set of policies informally known as the "Mar-a-Lago Accord"—a loosely defined framework aimed at revitalizing American industry by confronting what it identifies as the corrosive effects of a chronically strong US dollar. Central to this diagnosis is the United States' role as issuer of the global reserve currency. The dollar's use in international trade, debt issuance and commodity pricing ensures an almost constant level of global demand, irrespective of US export competitiveness. To facilitate trade, defend exchange rates and manage reserves, foreign governments and multinational firms stockpile dollars—often in the form of US Treasury securities. This persistent demand for Treasuries has helped suppress interest rates and enabled the United States to accumulate nearly $37 trillion in federal debt since 1980. While this has financed decades of consumption and borrowing, the Mar-a-Lago camp argues that it has also hollowed out domestic manufacturing and skewed incentives toward financialization and services over the production of goods.

A global reserve currency is the backbone of international commerce and finance. It is the currency held in large quantities by central banks and international institutions for settling cross-border transactions, pricing commodities, facilitating debt issuance and maintaining currency pegs. Reserve currencies enable trade stability and liquidity across nations that may not share political alignments or economic similarities. Historically, the currency of the world's leading economic power has tended to dominate this role, but the rise of multipolar geopolitics, technological disruption and macroeconomic imbalances is calling the current system into question. With the US dollar still commanding a dominant share of global reserves, questions are emerging from both critics abroad and observers at home: Does the United States still benefit from this role? If so, is it sustainable?

What Is a Global Reserve Currency?

A global reserve currency is a national currency that is used internationally for trade, finance and reserves. It must satisfy multiple criteria: liquidity, convertibility, trust, legal stability and widespread use in transactions and investment. Most importantly, it must be backed by the economic and institutional strength of its issuing country. A reserve currency is not only used by private actors, but by governments and central banks as well to manage exchange rates, settle trade imbalances and build financial reserves that offer safety and flexibility.

These currencies serve several functions simultaneously. They act as units of account for global pricing (especially for commodities like oil, gold and agricultural exports), as media of exchange in international payments and as stores of value in bank

accounts and vaults. The most dominant reserve currencies are used in the issuance of sovereign and corporate bonds, denominating debt that circulates across global capital markets. The central, singular reserve currency today—the US dollar—satisfies all of these functions and more.

How Reserve Currencies Arise

Reserve currency status does not emerge by fiat, nor is it conferred by a multilateral decision. Instead, it arises organically from a combination of a country's economic size, commercial reach, geopolitical power, financial market depth and institutional trustworthiness. Typically, a reserve currency emerges when a nation becomes a center of trade and finance, creating a network effect in which other countries find it convenient—or essential—to conduct business in that currency.

The path to reserve currency status tends to begin with trade dominance. When a country is a primary exporter of goods and services, its currency becomes naturally entwined with global commerce. But that alone is insufficient. The country must also maintain deep and liquid financial markets that provide global investors and governments with a reliable store of value and risk-adjusted returns. A well-managed monetary policy regime and transparent institutions underpin trust in the value of the currency over time.

Critically, once reserve status is attained it tends to be self-reinforcing. The more actors use a currency, the greater the incentives for others to do the same, reinforcing its dominance through familiarity, habit and infrastructure. Dislodging a currency from that position is rare without systemic upheaval.

Historical Reserve Currencies

Reserve currency issuer status has historically been held by the dominant economic and financial power of an era. Examining past reserve currencies reveals the conditions that enable monetary leadership—and the vulnerabilities that ultimately lead to its decline.

Gold

Gold is often considered the first *de facto* global reserve asset, as it was universally accepted across civilizations for trade and settlement. While it lacked a central issuing authority or formal monetary framework, it functioned effectively as a neutral, trusted medium held by states and empires to back currency and ensure financial credibility. Though not a reserve currency in the modern fiat sense, gold's role as a universal store of value and strategic reserve gives it a foundational place in the history of international finance.

The Roman Denarius/Solidus (circa 211–700 CE)

During the height of the Roman Empire, these coins functioned as a trans-regional reserve and trade currency across Europe, North Africa and the Near East. As the empire fragmented and debased its currency, the denarius lost credibility and gave way to localized coinage systems across successor states and rising medieval powers.

The Venetian Ducat and Florentine Florin (circa 1252–1600 CE)

In the late Middle Ages and Renaissance, these gold coins were trusted and widely accepted across Europe and parts of the Middle East for trade and banking, thanks to the financial sophistication and credibility of the issuing city-states. They eventually declined as Italian political power waned and were supplanted by the currencies of emerging nation-states like Spain and the Netherlands.

The Spanish Silver Dollar (circa 1550–1800 CE)

Due to Spain's vast empire and silver mines in the Americas, the silver dollar circulated widely across Europe, Asia and the Americas and was effectively a global medium of exchange—particularly in trade with China. Over time, it was displaced by the Dutch guilder and later the British pound as Spain's imperial dominance faded and newer financial centers rose.

The Dutch Guilder (circa 1600–1800 CE)

In the 17th century, the Dutch Republic was the world's preeminent trading and maritime power. Its currency, the guilder, became the dominant international medium of exchange, backed by the credibility of the Bank of Amsterdam. The guilder was widely accepted across Europe and parts of Asia due to its stable value, rigorous minting standards and the Netherlands' role in global trade. However, as Dutch power waned and the British Empire expanded, the guilder gradually fell out of favor.

The British Pound (circa 1815–1945 CE)

From the 19th century through the early 20th century, the British pound sterling served as the dominant global reserve currency. This coincided with the British Empire's peak, when it controlled trade

14th century Florentine florin.

Medieval Venetian ducat.

routes, industrial production and financial markets across five continents. The Bank of England operated with credibility, and London became the global center of banking and commerce. Sterling was the anchor of the classical gold standard, which ensured exchange rate stability. However, two world wars, economic stagnation and imperial decline undermined Britain's fiscal capacity and the pound's credibility. The transition from sterling to the dollar was slow but inevitable, completed in the aftermath of World War II.

Dutch guilder, dated 1763.

The US Dollar (circa 1945–present)

The dollar's rise began during World War I when the United States became a major lender to Europe. After World War II, the 1944 Bretton Woods agreement established the dollar as the global reserve currency, pegging it to gold while other currencies were pegged to the dollar. This gave the US extraordinary influence in global finance and established the Federal Reserve as the *de facto* central bank of the world. Although the United States abandoned gold convertibility in 1971, the dollar's dominance persisted due to the depth of US capital markets, the liquidity of US Treasury securities and the sheer size of the American economy. Petrodollar arrangements with oil-producing countries further reinforced dollar centrality by pricing crude oil exclusively in US dollars.

Other Currencies

The euro, introduced in 1999, was designed in part to rival the dollar. It quickly became the second most held reserve currency, peaking at nearly 25% of global reserves in the early 2000s. However, the eurozone debt crisis, lack of fiscal integration and divergent member economies limited its further ascent. The Japanese yen and British pound are widely held but restricted by the relative economic size and institutional limits of their issuers. The Chinese renminbi, despite the economic scale of China, faces major hurdles such as capital controls, limited transparency and geopolitical mistrust that constrain its rise to reserve status.

The Triffin Dilemma

A unique paradox faces the issuer of the global reserve currency: it must supply enough liquidity to the world, typically by running current account deficits, yet those very deficits undermine confidence in the long-term value of the currency. This is the Triffin dilemma, named after economist Robert Triffin, who first articulated it in the 1960s.

In the US case, satisfying global demand for dollars means importing more than it exports, thus running persistent trade deficits. While this provides the world with the liquidity it needs to transact, it tends to increase external debt. Over time, the accumulation of liabilities can prompt questions about fiscal sustainability, inflationary risk and the political will to honor obligations. The contradiction is fundamental: global monetary stability depends on a national policy path that may become politically or economically untenable.

The dilemma deepens when global shocks occur. In every major crisis—from the 1997 Asian financial crisis to the 2008 global financial crisis and the Covid-19 pandemic—demand for dollar liquidity surges. The Federal Reserve often responds with swap lines and emergency lending to other central banks, reinforcing the dollar's role but also deepening dependency upon it.

Issuing the global reserve currency confers substantial advantages to the issuing nation, most notably through financial, monetary and geopolitical channels. First, because global institutions—including foreign central banks and sovereign wealth funds—demand dollar-denominated assets such as US Treasury securities, this steady appetite lowers the yield the United States must offer to attract buyers. As a result, the federal government can finance budget deficits at lower interest rates than other countries with comparable debt levels. Second, the United States enjoys "monetary sovereignty": it can issue debt in its own currency, thereby avoiding the exchange-rate and rollover risks that burden countries reliant on external (foreign currency-denominated) borrowing. That further reduces the likelihood of currency crises or capital flight.

The dollar's dominance also grants the United States considerable geopolitical leverage. Because most international payments flow through systems like the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and rely on dollar-clearing infrastructure, the United States can enforce financial sanctions with global reach, compelling foreign banks and governments to comply with its regulatory framework. Fourth, strong foreign demand for dollars allows the United States to sustain persistent current account deficits without triggering immediate balance-of-payments crises—a luxury not afforded to most economies. Finally, the country benefits from a form of seigniorage: it earns what economists call "exorbitant privilege" by issuing a currency that others hold as reserves. This allows the United States to effectively import real goods and services in exchange for paper liabilities, generating economic rent from its unique monetary position

While the benefits of issuing the global reserve currency are considerable, they are accompanied by significant long-term and structural disadvantages that can

undermine domestic economic health and global stability. The continuous inflow of foreign capital—seeking dollar-denominated assets—can inflate asset prices and distort credit markets. This often results in financial bubbles and unsustainable debt accumulation across both public and private sectors. Moreover, the fiscal space afforded by low borrowing costs may reduce the urgency for structural reforms, enabling political leaders to postpone difficult decisions on entitlement reform, tax policy or spending discipline. These dynamics can provoke political backlash: the concentrated gains of reserve currency status—seen in financial centers and multinational firms—are often not felt by working-class communities, fueling populism and skepticism toward the considerable benefits of global trade. Finally, reliance on the dollar's dominance to impose financial sanctions or exercise geopolitical influence carries its own risks. Overuse of this "weaponized finance" can incentivize rival states—and even disaffected allies—to develop alternative financial systems, accelerate de-dollarization and gradually fragment the international monetary order

Contemporary Challenges and De-dollarization

Since the early 2000s, the US dollar's share of official foreign exchange reserves has declined from over 70% to below 59%, signaling a gradual erosion in its dominance of the global financial system. While the dollar remains the primary reserve asset, this trend reflects a growing desire among nations to reduce their dependence on a single monetary hegemon. Several structural and geopolitical factors have accelerated this shift. US sanctions on countries such as Russia and Iran have motivated targeted nations to build alternative financial infrastructure, including Russia's SPFS and China's Cross-Border Interbank Payment System (CIPS), to circumvent dollar-based settlement networks. A growing number of countries—including China, India and Russia—are increasingly conducting bilateral trade in their own

Five British pounds, dated 1839.

national currencies, reducing the dollar's role in invoicing and settlement.

Central banks, especially in emerging markets, have stepped up gold purchases as a means of hedging against dollar volatility and geopolitical risk, diversifying away from US assets. The growing exploration and development of central bank digital currencies (CBDCs) may, in time, allow cross-border payments to bypass the traditional dollar clearing system altogether. Technological advances in decentralized finance—ranging from blockchain platforms to private cryptocurrencies—present a long-term challenge to dollar primacy by offering alternative channels for capital flow, even if such tools remain on the periphery of mainstream finance for now.

No challenger presently has the scale, credibility or institutional robustness to fully replace the dollar in the short term. But the long-term trend points to greater multipolarity and increasing incentives for diversification.

The Future of Reserve Currency Leadership

What would a transition away from dollar dominance look like? Most likely, it would not involve a sudden collapse but a gradual diffusion of financial power. A more plausible future would involve a setting in which the dollar remains dominant but is accompanied by a rising share of euros, renminbi and other currencies. Gold and digital assets may also play a supporting role in a more diversified global reserve architecture.

If the US role as the issuer of the world's reserve currency is to be maintained, the key challenge for the United States is to manage its domestic affairs—particularly its fiscal path, monetary policy and institutional credibility—in a way that fosters global trust. Reserve currency status is not a birthright. It is earned and re-earned generation by generation, policy by policy and transaction by transaction. If the US fails to live within its means or abuses its financial power, a shift may become not only possible, but inevitable.

Global reserve currencies reflect the distribution of economic power and institutional strength at a given moment in history. The US dollar remains at the center of global finance due to its unmatched liquidity, deep markets and institutional trust. But history shows that no reserve currency lasts forever. The Dutch guilder and British pound were displaced not through sudden shocks, but through long processes of relative decline.

The United States today stands at a crossroads. Americans enjoy profound advantages from issuing the world's reserve currency but must now grapple with the structural imbalances and political strains imposed by that role. As global power disperses and alternative systems evolve, the durability of dollar dominance will depend not only on America's external rivals—but on our own internal discipline, reforms and capacity for renewal. $

Dr. Peter C. Earle is the director of economics and economic freedom and a senior research fellow at the American Institute for Economic Research (AIER). His research focuses on financial markets, financial market history, monetary policy, cryptocurrencies, the economics of games and problems in economic measurement. He has been a member of the Financial History *editorial board since 2022.*

Incorporated under the Laws of the State of Pennsylvania
NUMBER
54
SHARES
100
The Erie Brewing Company
CAPITAL STOCK $1,000,000.00
SHARES, PAR VALUE $1.00 EACH
This Certifies that Francis M. Keeley is the owner of
One Hundred Shares of the Capital Stock of
The Erie Brewing Company
fully paid and non-assessable shares of the par value of One Dollar each
transferable only on the books of this Corporation in person or by Attorney
upon surrender of this Certificate properly endorsed.
In Witness Whereof, the said Corporation has caused this Certificate to be signed
by its duly authorized officers and its Corporate Seal to be hereunto affixed
at Erie, Pennsylvania, this 12th day of January A.D. 1933
Treasurer
President

Courtesy of Art Distelrath

IPOs on Tap

Financing the 1933 Brewery Boom

By Jason E. Taylor and Robert E. Wright

Within a year of legal beer's April 1933 return, American breweries multiplied fivefold, from 133 to 661. Most bubbled back to life after sitting idle during the 13-year-long ban on the production or sale of beverages containing more than 0.5% alcohol as specified in the Volstead Act, the legislation enforcing the 18th Amendment. These brewing facilities needed new equipment, delivery trucks, barrels, bottles and cases, as well as raw ingredients such as barely, malt and hops. According to the United States Brewers' Association, American breweries spent $250 million—around $6 billion in today's dollars—to facilitate beer's return. Financing this rapid brewery resurgence at the lowest point of the Great Depression showed the remarkable resilience of America's capital markets. So how did it happen?

During the bullish first six months of 1929, US corporations issued $3.4 billion ($64 billion in today's dollars) worth of common and preferred stock. The Great Crash and subsequent bear market (the Dow dropped from about 350 to 50), however, reduced new issues almost to the vanishing point. "Stock issues now occupy a minor place in our compilations," the *Financial Chronicle* noted in July 1932, "what little financing was done having been almost entirely in the shape of bonds and notes in sharp contrast with the [pre-crash] years when stock issues almost completely dominated the field." But events in Chicago soon changed this. There, the Democratic Party held its 1932 National Convention where it nominated Franklin Delano Roosevelt for President and announced its intention to end Prohibition, first by relaxing the definition of an intoxicating liquor in the Volstead Act, and then by repealing the 18th Amendment. The American brewing industry, which had strongly objected to beer's classification as an intoxicant equivalent to liquors like whiskey and rum, got giddy. Legal beer's return would certainly prove a boon to those breweries that were ready to go from day one, so some began to prepare even before the November 1932 election. With the banking industry teetering and the bonds of small industrial corporations in the dumps, brewers turned to the public equity markets.

Norman S. Goldberger, the head of New York City's Fidelio Brewery, for example, moved fast and hard to secure equity financing. While almost all the nation's 1,400 pre-Prohibition breweries had gone under, Fidelio stayed in business, albeit at less than 15% of capacity, by making dealcoholized "near beer" and malt tonic. In the midst of the Chicago convention, Goldberger quickly organized Fidelio Brewery Inc. with a $1 million capitalization consisting of one million shares of common stock with a $1 par value.

To raise the funds necessary to bring the brewery back up to capacity for beer's return, Goldberger announced that 500,000 of these shares would be offered for public subscription at $2 each. On July 5, the New York brokerage house Bauer, Pogue & Co. began offering Fidelio shares in what was reported as the first brewery financing event since passage of the Volstead Act and only the second new stock issuance *by any US corporation* in 1932. A month later, Jetter Brewing Company of Omaha, Nebraska, became the second brewery to issue new stock when the brokerage group Harris, Ayers & Company offered 300,000 Jetter shares at $2 each. The proceeds of the brewery's IPO were likewise earmarked for upgrades in anticipation of legal beer's hoped-for return.

November's landslide election in favor of the "Wet" Democrats strongly signaled that beer's return was both likely and imminent,

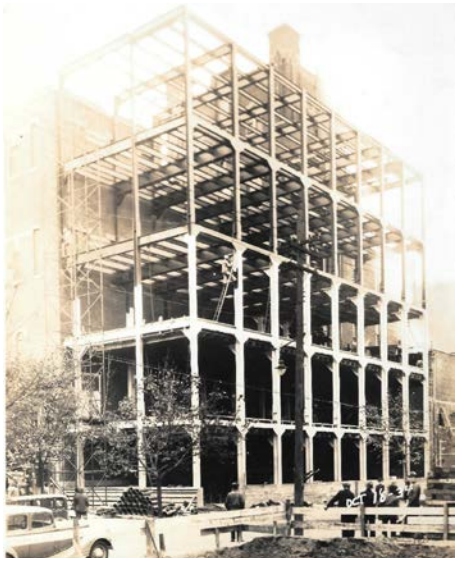
Stock certificate showing the DPO purchase of 100 shares of Erie Brewing Company stock to Francis M. Keeley on January 12, 1933.

and breweries—both those that were already in operation making dealcoholized beer, as well as some that had long sat idle—began to prepare in earnest. To help fund their rehabilitations, 10 more breweries issued $5.6 million worth of stock in November and December. Among these was a direct public offering (DPO, or an un-intermediated IPO) of 50,000 shares from Fort Pitt Brewing of Sharpsburg, Pennsylvania, with the funds raised earmarked for expansion.

Fort Pitt subscriptions opened at 10 am, and all shares were sold before noon. Nationwide newspaper coverage of the successful sale, reminiscent of the DPO of the Bank of the United States in July 1791, further excited the public's imagination about the financial possibilities associated with "beer stocks." While the unemployment rate was approaching 25%, for those workers fortunate enough to keep their jobs, the era's deflation and government policies promoting high nominal wages proved something of a boon, leaving them with some savings but no clear place to invest it. After several waves of regional panics and failures, even banks were not considered a safe place to keep funds. Furthermore, many Americans were excited about the opportunity to get in on the ground floor of beer's return after the long years of Prohibition. Historically, most US breweries had been family-owned partnerships or closely held corporations.

The Erie Brewing Company also offered stock to the public early on. The company, which had operated in Erie, Pennsylvania, since 1848, gave up brewing completely during Prohibition, devoting its resources to the manufacture and sale of ice. To shift back to beer, the company needed capital quickly. The corporation's stock had long been closely held, but its shareholders agreed to directly offer 100,000 shares to the public—10% of the company—at a price of $2 a share to raise $200,000 (around $5 million in today's dollars). A surviving stock certificate shows that Francis M. Keely purchased 100 of those shares on January 12, 1933. Other extant certificates and shareholder lists provide a flavor of who invested, which is a complex and interesting topic for another time.

On March 13, 1933, nine days after taking office, FDR asked Congress to immediately modify the Volstead Act to allow legal beer. The Cullen-Harrison Act, which raised the definition of intoxicating beverages to 3.2% alcohol by weight (4% by volume) quickly passed both the House and Senate. On March 22, Roosevelt's signature started a 15-day clock that made 3.2 beer legal at the federal level at 12:01 am on April 7. The legislatures of many states with their own prohibition laws likewise went into overdrive to clear the way for beer. Twenty states, including most of the large beer producing ones such as New York, Wisconsin, Pennsylvania and California, welcomed 3.2 beer on April 7.



Courtesy of Art Distelrath

Fort Pitt Brewing Company's new stock house under construction in 1934. The funds raised from Fort Pitt's DPO were earmarked for expansions like these.

Between Roosevelt's March 13 beer call and the "New Beer's Eve" countdown to April 7, another distinct wave of beer stock issuances occurred. On March 16, the longstanding Berghoff Brewery of Fort Wayne, Indiana, conducted an IPO of 60,000 shares at $5.75 each. Six days later, the newly incorporated Croft Brewing Company held an IPO of 1.5 million shares at $1.30 each. Croft used the proceeds to purchase and rehabilitate the vacant Highland Spring Brewery, which traced its roots to 1869. Walter Croft, a major player in the corporate reboot, had served as Highland Spring's brewmaster prior to Prohibition. The company engaged architect Emil Hartman to design a new bottling plant adjacent to the brewery, and

FRED KRUG BREWING COMPANY

(A Nebraska Corporation)

OMAHA, NEBRASKA

215,000 shares of Common stock of par value of ($1.00) One Dollar of the above Corporation is being offered for sale.

Orders for the purchase of this stock may be transmitted to Associated Distributors, Inc., 714 Union State Bank Bldg., Omaha, Nebraska.

The subscriptions will be given consideration in the order in which they are received by this firm, so that there will be no discrimination.

Offering Price $1.50 Per Share

Associated Distributors, Inc.

Investment Securities

714 Union State Bank Bldg. Omaha, Neb.

ATlantic 8688

The offering in this advertisement shall in no way be construed as an offer of stock to persons residing outside of the State of Nebraska.

This IPO advertisement from the Fred Krug Brewing Company appeared in the *Omaha World-Herald* on July 21, 1933.

INITIAL OFFERING 240,000 SHARES COMMON STOCK

"Pros't"

BREWING CO.

DETROIT, MICHIGAN

CAPITALIZATION

Common Stock $1.00 Par Value (Fully Paid—Non-Assessable)
Authorized 500,000 shares
To be outstanding, upon completion of this financing, 320,659 shares
Offering 240,000 shares at $1.00 per share

An advertisement in the *Detroit Free Press* announcing the initial offering of 240,000 shares of Pros't Brewing Company stock, September 17, 1933.

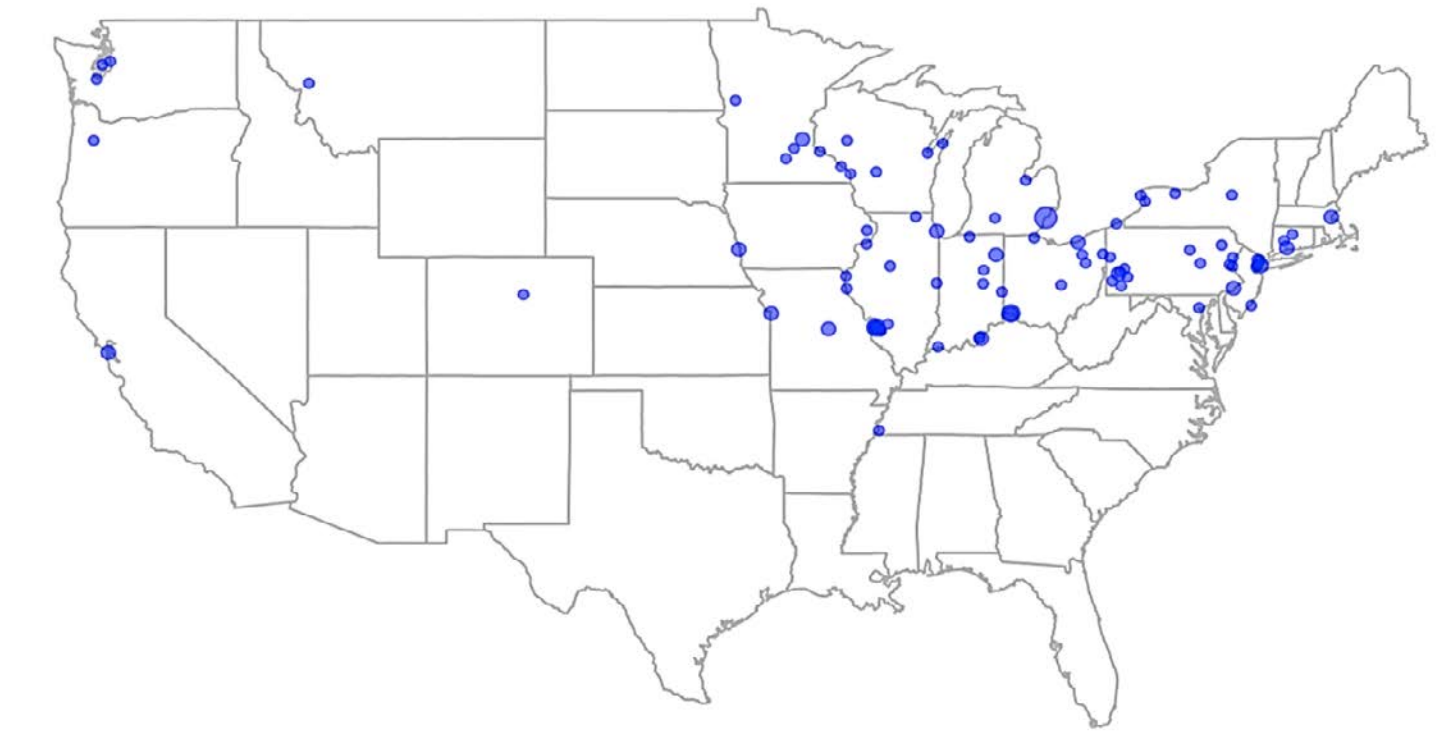
by early fall the brewery was producing its first batches of Croft Ale.

On March 23, the newly incorporated Frank Fehr Brewing of Louisville, Kentucky, held an IPO of 500,000 shares at $1.50 each. Tombstones advertising the new issuance noted that the funds raised would facilitate the production of a new brewhouse and the purchase of new equipment allowing the brewery to produce at least 350,000 barrels a year, which would make it one of largest breweries south of the Ohio River. On March 27, St. Louis giant Falstaff Brewing Co. issued 177,000 new shares of common stock—one quarter of its company—at $7 each to raise around $1.2 million of new capital. Bauer, Pogue & Company, the same broker that carried out the Fidelio offering, handled the offering.

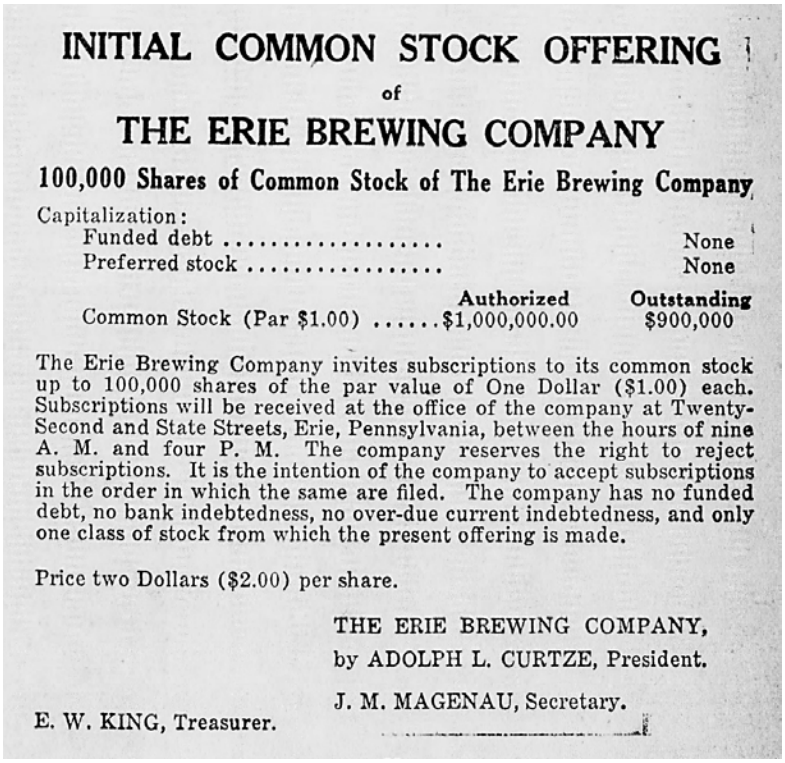
Legal beer returned to much fanfare in the second quarter of 1933. In fact, many pundits credited beer's return as a key contributor to the sharp economic recovery that spring. *The New York Times* noted on April 16 that, "Beer seems to have loosened up the purse strings and the public feels better." Indeed, beer's return directly created up to a half million jobs related to brewing, service and distribution, including new jobs for makers of brewing equipment, glass bottles and other key inputs. More entrepreneurs jumped in headfirst, and brewery stock issuances heated up alongside the temperature with 19 in June, 31 in July and 30 more in August.

The Fred Krug Brewery of Omaha, Nebraska, issued shares that summer because Albert Krug wanted to honor the legacy of his late father by bringing his brewing facility back to life under its longstanding name after 16 years of idleness. While the Krug family retained a majority of the brewery's 500,000 shares, they offered 215,000 of them for public sale at $1.50 each. The funds raised by the IPO financed the Krug brewery's rehabilitation, the construction of new brew and stock houses and the purchase of new equipment such as mash tanks and kettles.

The Pros't Brewing Company of Detroit, Michigan, also offered shares during the heady summer of 1933. Unlike most brewery entrants, Pros't had no pre-Prohibition history, but made liquid malt—an ingredient in beer also used in baking—during the final years of Prohibition. The



Location of the 127 breweries that issued stock in 1933. Larger dots represent multiple breweries.



INITIAL COMMON STOCK OFFERING

of

THE ERIE BREWING COMPANY

100,000 Shares of Common Stock of The Erie Brewing Company

Capitalization:

Funded debt		None
Preferred stock		None
	Authorized	Outstanding
Common Stock (Par $1.00)	$1,000,000.00	$900,000

The Erie Brewing Company invites subscriptions to its common stock up to 100,000 shares of the par value of One Dollar ($1.00) each. Subscriptions will be received at the office of the company at Twenty-Second and State Streets, Erie, Pennsylvania, between the hours of nine A. M. and four P. M. The company reserves the right to reject subscriptions. It is the intention of the company to accept subscriptions in the order in which the same are filed. The company has no funded debt, no bank indebtedness, no over-due current indebtedness, and only one class of stock from which the present offering is made.

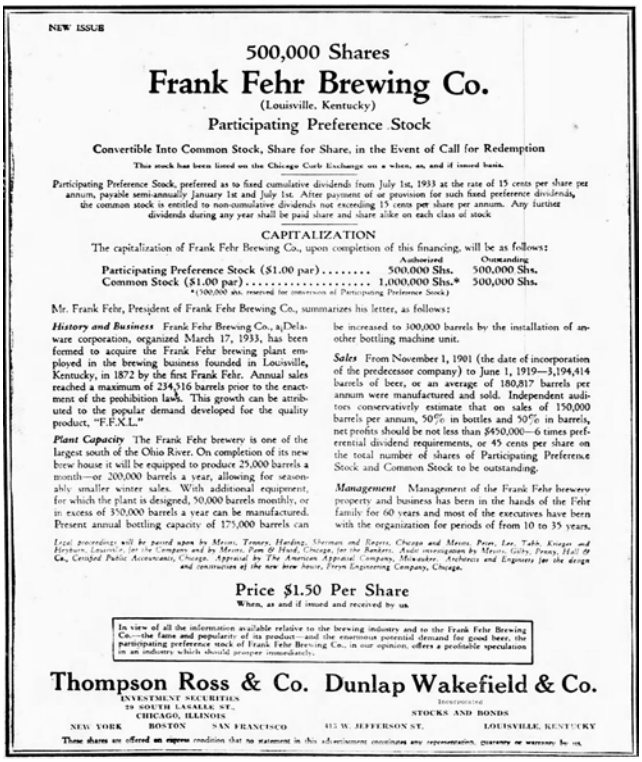
Price two Dollars ($2.00) per share.

THE ERIE BREWING COMPANY,
by ADOLPH L. CURTZE, President.

J. M. MAGENAU, Secretary.

E. W. KING, Treasurer.

Erie Brewing advertised its DPO in the *Warren Times Mirror* on December 5, 1932.



NEW ISSUE

500,000 Shares

Frank Fehr Brewing Co.

(Louisville, Kentucky)

Participating Preference Stock

Convertible Into Common Stock, Share for Share, in the Event of Call for Redemption

This stock has been listed on the Chicago Curb Exchange on a when, as, and if issued basis.

Participating Preference Stock, preferred as to fixed cumulative dividends from July 1st, 1933 at the rate of 15 cents per share per annum, payable semi-annually January 1st and July 1st. After payment of or provision for such fixed preference dividends, the common stock is entitled to non-cumulative dividends not exceeding 15 cents per share per annum. Any further dividends during any year shall be paid share and share alike on each class of stock

CAPITALIZATION

The capitalization of Frank Fehr Brewing Co., upon completion of this financing, will be as follows:

	Authorized	Outstanding
Participating Preference Stock ($1.00 par)	500,000 Shs.	500,000 Shs.
Common Stock ($1.00 par)	1,000,000 Shs.*	500,000 Shs.

*(500,000 shs. reserved for conversion of Participating Preference Stock)

Mr. Frank Fehr, President of Frank Fehr Brewing Co., summarizes his letter, as follows:

History and Business Frank Fehr Brewing Co., a Delaware corporation, organized March 17, 1933, has been formed to acquire the Frank Fehr brewing plant employed in the brewing business founded in Louisville, Kentucky, in 1872 by the first Frank Fehr. Annual sales reached a maximum of 234,316 barrels prior to the enactment of the prohibition law. This growth can be attributed to the popular demand developed for the quality product, "F.F.X.L."

Plant Capacity The Frank Fehr brewery is one of the largest south of the Ohio River. On completion of its new brew house it will be equipped to produce 25,000 barrels a month—or 200,000 barrels a year, allowing for seasonably smaller winter sales. With additional equipment, for which the plant is designed, 50,000 barrels monthly, or in excess of 350,000 barrels a year can be manufactured. Present annual bottling capacity of 175,000 barrels can be increased to 300,000 barrels by the installation of another bottling machine unit.

Sales From November 1, 1901 (the date of incorporation of the predecessor company) to June 1, 1919—3,194,414 barrels of beer, or an average of 180,817 barrels per annum were manufactured and sold. Independent auditors conservatively estimate that on sales of 150,000 barrels per annum, 50% in bottles and 50% in barrels, net profits should be not less than $450,000—6 times preferential dividend requirements, or 45 cents per share on the total number of shares of Participating Preference Stock and Common Stock to be outstanding.

Management Management of the Frank Fehr brewery property and business has been in the hands of the Fehr family for 60 years and most of the executives have been with the organization for periods of from 10 to 35 years.

Legal proceedings will be passed upon by Messrs. Tenney, Harding, Sherman and Rogers, Chicago and Messrs. Price, Lee, Tabb, Krieger and Hepburn, Louisville, for the Company and by Messrs. Pam & Hand, Chicago, for the Bankers. Audit investigation by Messrs. Gelfs, Penny, Hall & Co., Certified Public Accountants, Chicago. Appraisal by The American Appraisal Company, Milwaukee. Architects and Engineers for the design and construction of the new brew house, Frese Engineering Company, Chicago.

Price $1.50 Per Share

When, as and if issued and received by us

In view of all the information available relative to the brewing industry and to the Frank Fehr Brewing Co.—the fame and popularity of its product—and the enormous potential demand for good beer, the participating preference stock of Frank Fehr Brewing Co., in our opinion, offers a profitable speculation in an industry which should prosper immediately.

Thompson Ross & Co. — INVESTMENT SECURITIES, 79 SOUTH LASALLE ST., CHICAGO, ILLINOIS — NEW YORK BOSTON SAN FRANCISCO

Dunlap Wakefield & Co. — Incorporated, STOCKS AND BONDS, 415 W. JEFFERSON ST., LOUISVILLE, KENTUCKY

These shares are offered on express condition that no statement in this advertisement constitutes any representation, guaranty or warranty by us.

Example of a brewery IPO "tombstone" advertisement from the March 23, 1933 *Louisville Courier-Journal*. Such advertisements, detailing the history of the brewery and how the funds raised from the IPO would be used, were common across the spring and summer of 1933.

business shifted to the production and sale of 3.2 beer after it became legal to do so in Michigan on May 12, and the demand for its Pros't and Double Pros't beer far outstripped the small facility's ability to produce. Thus, on September 17, Pros't offered 240,000 shares of stock at $1 per share to expand the company's capacity.

Not all 1933 brewery funding came from public offerings, but there is conclusive evidence in the *Financial Chronicle* and other US newspapers that at least 127 of the 605 breweries that operated between April and December 1933 issued shares to the public. In total, these breweries offered over $66 million worth of common stock—$71 million counting the issuances of brewery-allied industrial firms such as bottle and barrel makers. This suggests that around one quarter of the estimated $250 million expended to fund beer's return in 1933 came through public equity financing.

Perhaps unsurprisingly, most breweries that issued shares in 1933 were located in the Northeast and upper Midwest, the regions that had both the most advanced securities markets and thirsty beer palettes. Breweries also appeared in the South and West, but most of those were smaller and found other ways to secure startup capital. Because the Securities and Exchange Commission was not yet a factor, differences in state security regulations, the so-called "Blue Sky Laws," may have played a role in the geographical distribution of the brewery stock sales. Securities regulators proved particularly prudent in Illinois—an important state for brewers due to the financial markets of Chicago and the large beer-loving populations in several adjacent states—stopping one instance of overreach while allowing more stable issuers to proceed.

Although still a far cry from its August 1929 peak, the IPO market revivified in 1933 due to the brief but spectacular upturn in the economy and some frothiness in the market for new beer stocks, which accounted for 60% of all new stock issues in dollar terms. Some market observers and state securities regulators feared that a boozy beer bubble could form, but official warnings—plus another downturn in the economy caused by FDR's Blue Eagle industrial codes and monetary policy uncertainty—cooled new issues by late 1933. The US economy and stock market failed to recover for the rest of the decade, but at least Americans no longer had to face the Depression, or rising geopolitical tensions, stone cold sober. $

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A HOLLOW TRIUMPH?

Healthcare as a business is supremely successful but widely reviled

President Lyndon B. Johnson signs the Medical Bill, July 7, 1965.

By Gregory DL Morris

In no small irony, the common expression "the operation was a success, but the patient died"' could be said to describe the business history of healthcare and health insurance in the United States. From a purely operational perspective, hospitals deploy a dazzling array of technology and capabilities, and health insurance companies are highly profitable. They reduced their loss ratios—claims paid as a percentage of premium—from 95% in 1993 to 80% in 2010. At a policy level, the industry's success is founded in no small part on the favorable tax treatment of employer-sponsored insurance.

For all that, though, there is broad and deep dissatisfaction with the system. Few industries are as widely resented and mistrusted. Some of that stems from the complexity and inconsistencies of coverage rules and claims procedures. Mostly, though, that is because of those same low loss ratios. To executives and shareholders, that is a feature; to those whose claims have been denied, it's a flaw.

As CNN reported in December 2024, "Americans' pent-up fury with the nation's health insurance industry burst into the spotlight last week after the fatal shooting of UnitedHealthcare CEO Brian Thompson in midtown Manhattan. They flooded social media with posts and videos about denials of medical treatments and claims, as well as other frustrations with the complicated system."

American healthcare is increasingly publicly financed yet investor owned, a trend accompanied by rising costs and worsening population health, according to the 2023 study, "Century-Long Trends in the Financing and Ownership of American Health Care," by Adam Gaffney, Steffie Woolhandler and David U. Himmelstein, published in the *Milbank Quarterly* and available through the National Institutes of Health's National Library of Medicine.[1]

"For-profit ownership of most health care sub-sectors has risen in recent decades and now predominates in several (including nursing facilities, ambulatory surgical facilities, dialysis facilities, hospices and home health agencies)," the study said. "However, most community hospitals remain not-for-profit. Additionally, over the past century, a growing share of physicians identify [themselves] as employees."

Those structural shifts have been accompanied by dramatic changes in who pays for healthcare and who owns and controls it, the study found.

"Current patterns of health care financing and ownership reflect historical cross-currents of public policy, corporate power, philanthropy, professional prerogatives and patients' needs. Private ownership of hospitals, for instance, has long been the norm. Yet public hospitals have always played an important role, starting with the founding of New York's Bellevue Hospital in 1736 and a federal hospital system for sailors under the 1798 Act for the Relief of Sick and Disabled Seamen, signed into

law by John Adams. Today, the federally owned Veterans Affairs system is the nation's largest health system."

Ownership patterns in the private sector have also shifted, the study noted. Since the 1980s, investor ownership of many types of healthcare facilities and physician practices has been rising.

"On the insurance side, whereas third-party payment was dominated by employer-sponsored insurance (ESI) in the post–World War II period, Medicare's and Medicaid's enactment in the Civil Rights Era, and the Affordable Care Act's 2014 implementation have dramatically expanded public coverage. Meanwhile, the tax exemption for ESI continues to provide hidden taxpayer subsidies to private insurers."

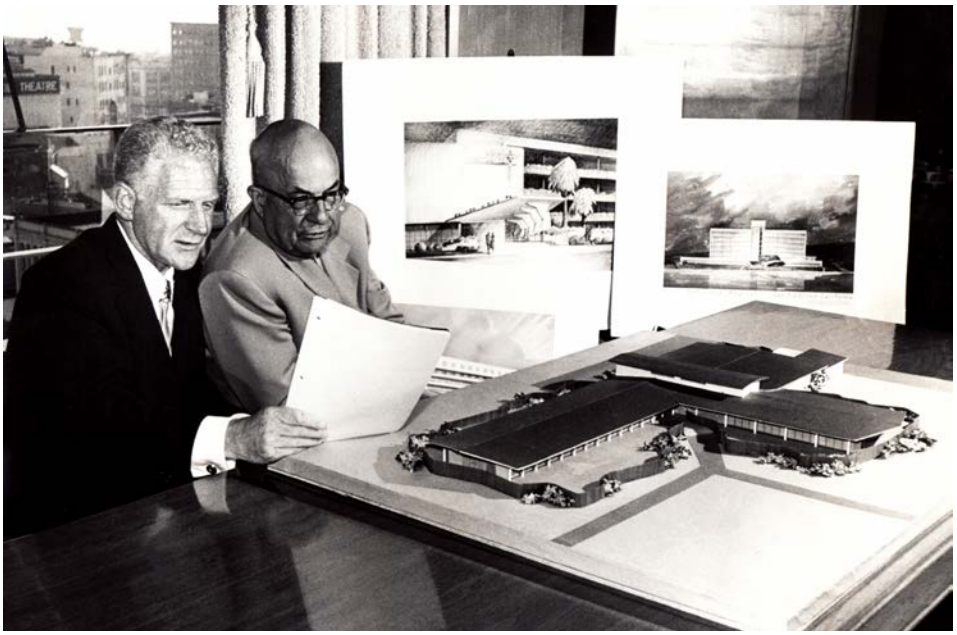
The study concluded that "over the past century, three overarching trends are evident in the financing and ownership of US health care. First, the tax-financed share of health care spending has soared from 9% in 1923 to 69% in 2020. Taxpayer subsidies for private insurance accounted for a growing proportion of these public expenditures, rising from 0% in the 1920s to nearly a third in recent years.

"Second, for-profit ownership of health care facilities has increased, with a concomitant decline in public ownership. At present, investor ownership predominates for many types of providers, although a notable exception is community hospitals, which remain mostly not-for-profit.

"Finally, a decreasing share of physicians are self-employed, and more are employees, although the proportion reporting public employment has fallen. The historical trends we observed have not been accompanied by salubrious results: medical costs continue to soar while administrative inefficiency worsens, even as Americans' health stagnates—or deteriorates."

None of that developed in a vacuum. Some of the changes were innovative initiatives to meet real needs. Some were expedients in times of crisis. A good deal of it was, and remains, politics and entrenched interests.

Medicine entered the modern era in the middle 1800s when, within the space of about two decades, anesthesia was developed, the germ theory of infection was clinically proven and sterilization of instruments became accepted. Still, through the turn of the century, care was mostly provided by family and friends, community doctors and midwives. Hospitals were mostly run by charitable or religious organizations, or teaching universities.



Courtesy of Kaiser Permanente Heritage Resources

Sidney R. Garfield, MD, and Henry J. Kaiser review designs for three modern Kaiser Permanente hospitals for Walnut Creek, San Francisco and Los Angeles in 1953.

Many timelines of health insurance start in 1912 when the Progressive Party, under Theodore Roosevelt, endorsed health insurance as part of their broader support for social insurance. But in an article in the Spring 2017 issue of *Stanford Medicine* magazine, Elizabeth Rosenthal, MD, noted that "in the 1890s, lumber companies in Tacoma, Washington, paid two enterprising doctors 50 cents a month to care for employees. It was perhaps one of the earliest predecessors to the type of employer-based insurance found in the United States today."

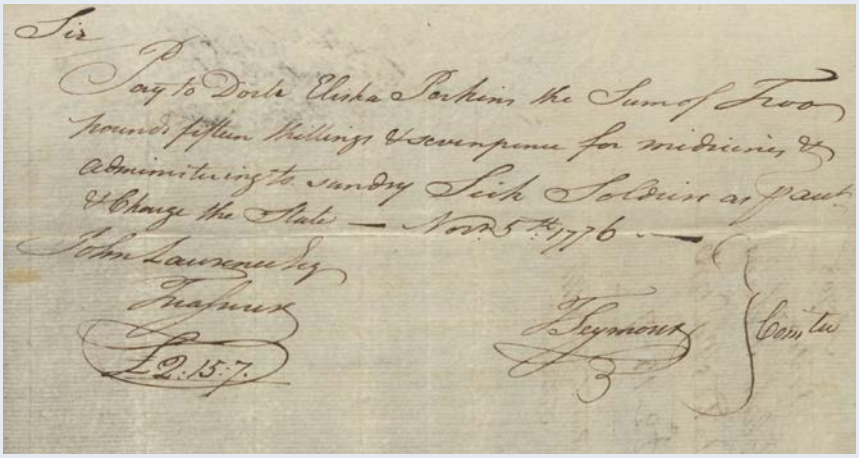
Bettmann

American Hospital Association President Dr. Claude Munger explains an insurance chart to first lady Eleanor Roosevelt, 1937. In her "My Day" column on April 17, 1947, Mrs. Roosevelt wrote, "It has just been drawn to my attention that the American Medical Association, in a report issued in 1940, admitted that families with incomes of less than $3,000 a year could not cover all of their sickness bills without assistance if they had to pay these on the usual fee basis. Almost 70% of American families had incomes under $3,000 in the prosperous year of 1945, when employment was at its height."

As medical treatments and knowledge improved in the early 20th century, the concept of insurance evolved, Rosenthal wrote. "The archetype for today's insurance plans was developed at Baylor University Medical Center in Dallas, Texas, which was founded in 1903 in a 14-room mansion by the Baptist Church. It is now part of Baylor Scott & White Health, since it merged with another health system in 2013, forming a giant healthcare conglomerate.

"A devout cattleman provided the initial $50,000 in funding to open what was then called the Texas Baptist Memorial Sanitarium, 'a great humanitarian hospital.' By the 1920s, more and more Texans were coming for treatment. When Justin Ford Kimball, a lawyer who was Baylor's vice president, learned that the hospital was carrying a huge number of unpaid bills, he offered the local teachers' union a deal. For $6 a year, teachers who subscribed were entitled to a 21-day stay in the hospital, all costs included. But there was a deductible. The insurance took effect after a week and covered the full costs of hospitalization, $5 a day, which is about $105 in 2016 dollars."

Within a decade, the model spread across the country, Rosenthal related. "Three million people had signed up by 1939 and the concept had been given a


Collection of the Museum of American Finance

This pay order from the Museum of American Finance's collection was issued to Dr. John Lawrence on November 5, 1776. It is for two pounds, 15 shillings and seven pence "for physician to cover medicines, etc."

A member of the University of Pennsylvania's first class of medical school graduates, Lawrence received his AB in 1764 from the College of New Jersey, now Princeton University. Until the War of Independence, he practiced in Middlesex County, New Jersey. Lawrence was a loyalist, and in July 1776 he was arrested by order of George Washington and sent to Elizabethtown before being released on parole. The date on the pay order indicates he returned to practice while on parole. After his examination by the Council of Safety in 1777, he moved to New York.

The pay order also indicates that medical costs have long been significant expenses. The sum is roughly equivalent to 240 pounds, or $330 today. More importantly, though, it represented about half a month's earnings for a skilled laborer in England in the 1770s. Hard money was always tight in the colonies, and even more so during the war, so this represents a considerable outlay.

name: Blue Cross Plans. The goal was not to make money, but to protect patient savings and keep hospitals—and the charitable religious groups that funded them—afloat. Blue Cross Plans were then not-for-profit.

"Blue Cross and its partner, Blue Shield, were more or less the only major insurers at the time and both stood ever ready to enroll new members. The former covered hospital care and the latter doctors' visits. Between 1940 and 1955, the number of Americans with health insurance skyrocketed from 10% to over 60%. That was before the advent of government programs like Medicare and Medicaid."

When the War Labor Board froze wages in 1943, it excluded "fringe benefits" including health insurance. As noted, employer-based health insurance was already well established, but that wartime expedient entrenched the concept. Through the 1950s, while many workers at all levels tended to stay with the same employer, that system seemed satisfactory.

A second reason for the rapid growth in health insurance was the expansion of organized labor over this period, according to Michael A. Morrisey in *Health Insurance, 2nd Edition*, published in 2013 by the American College of Healthcare Executives.

"Union influence on health insurance stemmed in part from the 1947 Taft-Hartley Act, which defined health insurance as a condition of employment and, therefore, a subject for collective bargaining," wrote Morrisey.

The third reason for the rapid growth in health insurance was the treatment of health insurance in the federal tax code. As noted, in 1943 the Internal Revenue Service issued a private ruling holding that employer-provided health insurance benefits were not subject to federal income taxation.

When America entered World War II, thousands of diverse workers migrated from across the country to Henry J. Kaiser's shipyards in Richmond, California; Portland, Oregon; and Vancouver, Washington. Many of them were inexperienced and in poor health, according to Kaiser Permanente's company history.

Kaiser was familiar with Dr. Sidney Garfield, a young doctor who arranged a care program for workers on the Colorado River Aqueduct project in southern California. As one of the aqueduct's contractors, Kaiser organized an insurance company, Industrial Indemnity Exchange, for his workers. Industrial Indemnity Exchange agreed to prepay Dr. Garfield a fixed amount per worker per day for work-related injuries and healthcare. Workers then voluntarily prepaid a premium of five cents per day from their paycheck for non-work-related healthcare.

President Franklin D. Roosevelt released Dr. Garfield from his military obligation at Kaiser's request to organize a care plan at the Kaiser shipyards. Then, as the war effort wound down, the shipyard workforce fell from 90,000 to about 13,000 people in only a few months. The number of shipyard doctors declined to about a dozen. But Dr. Garfield and Kaiser wanted to continue their new approach to healthcare. So, on July 21, 1945, the Permanente Health Plan officially opened to the public.

By the early 1950s, several large for-profit health insurance companies had become established, as had numerous smaller regional, local and vocational programs.

"Contradictory and inconsistent private rulings emerged over the 1940s and early 1950s," wrote Morrisey, "prompting Congress to enact legislation in 1954 that exempted employer-sponsored health insurance from federal income taxation. This tax exclusion is a key reason why the US health insurance market looks the way it does. The tax code effectively encourages employees and their employers to shift compensation toward untaxed health insurance and away from taxed money income. This tax subsidy is a big deal. The Congressional Budget Office (2013a) estimates that the federal tax subsidy alone amounted to $248 billion in 2013."

In her 2023 paper, "A (Brief) History of Health Policy in the United States," Katherine Smith, MD, executive director of the Delaware Academy of Medicine/Delaware Public Health Association, noted that "in 1938, the National Health Conference was convened in Washington, DC. Recommendations from that conference were incorporated into the National Health Bill, which died in committee in 1939. In that same year, the first Blue Shield plans were organized to cover the costs of physician care."

In 1943, legislation was introduced to operate health insurance as a part of Social Security, Smith wrote. "The Wagner-Murray-Dingell bill included provisions for universal comprehensive health insurance and changes to Social Security to move it toward a life-long social insurance. It did not pass.

"In 1944, President Roosevelt included the right to adequate medical care and the opportunity to achieve and enjoy good health in his Economic Bill of Rights State of the Union Address. Also in 1944, the Social Security Board called for required national health insurance as a part of the Social Security system."

Further bills and proposals were advanced under Harry Truman. "In 1948, the National Health Assembly was convened by the Federal Security Agency," Smith wrote. "The final report called for voluntary health insurance, but also stated the need for universal coverage. That same year, the American Medical Association would launch a national campaign *against* [Smith's italics] national health insurance."

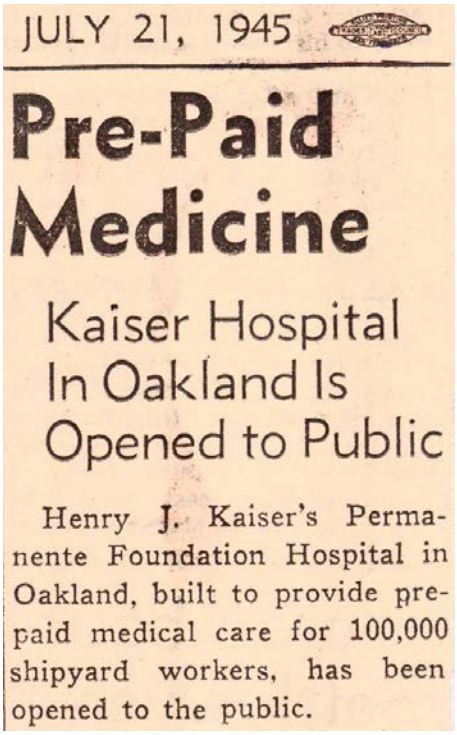
A high-water mark was reached in 1965, a year after the passing of the Civil Rights Act. The Medicare and Medicaid programs were incorporated into the Social Security Act and signed into law by Lyndon B. Johnson. "The bill had massive public approval, the support of the hospital and insurance industries, and no government cost controls or physician fee schedules within it," wrote Smith.

That brief consensus did not last.

According to the Kaiser Family Foundation's "Timeline: History of Health Reform in the US," by the early 1970s, general inflation and unchecked healthcare costs were already a growing concern. "Sen. [Edward] Kennedy's proposal for national health insurance was countered by President Nixon's own Comprehensive Health Insurance Plan. Other congressmen wrote more incremental plans, all of which splintered support for any one reform. Action on national health insurance was eventually overshadowed by the Watergate hearings and Nixon's resignation."

For the next two decades, "national health reform efforts were completely stalled in the face of an economic recession and uncontrollable health care costs," the Kaiser history related, until "making national health reform a priority early in his presidency, Clinton proposed a 'managed competition' approach, sending a detailed plan to Congress in 1993. It called for universal coverage, employer and individual mandates, competition between insurers, with government regulation to control costs."

"Support from key stakeholders was often limited and conditional," the Kaiser history continued. "The opposition was led largely by two groups: the Health


JULY 21, 1945

Pre-Paid Medicine

Kaiser Hospital In Oakland Is Opened to Public

Henry J. Kaiser's Permanente Foundation Hospital in Oakland, built to provide prepaid medical care for 100,000 shipyard workers, has been opened to the public.

Courtesy of Kaiser Permanente Heritage Resources

Enrollment surpassed 300,000 people in the first 10 years of the program, thanks to support from the International Longshore and Warehouse Union and the Retail Clerks Union.

Insurance Association of America and the National Federation of Independent Businesses, both believing reform would create hardship for their smaller members. Congressional Democrats were divided in their support, and further splintered by a variety of alternative proposals that were then generated all of which blocked progress on the President's plan."

It was not until 2010 that the House of Representatives passed the Senate bill, the Patient Protection and Affordable Care Act, voting 219–212 and sent it to President Barack Obama for the signature by which the law is widely know.

Meanwhile, what some have called the medical-industrial complex came into its own. "In 1993, [the year] before the Blues went for-profit, insurers spent 95 cents out of every dollar of premiums on medical care, which is called their medical loss ratio," wrote Rosenthal.

"To increase profits, all insurers, regardless of their tax status, have been spending less on care in recent years and more on activities like marketing, lobbying, administration and the paying out of dividends," she continued. "The average medical loss ratio is now closer to 80%. Some of the Blues were spending far less than that a decade into the new century. The medical loss ratio at the Texas Blues, where the whole concept of health insurance started, was just 64.4% in 2010." $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research and an active member of the Museum's editorial board. In 2025, he joined the Museum of American Finance staff as a research associate.

Note

1. The Gaffney, Woohandler and Himmelstein study methodology is detailed in their study as follows: "We used multiple historical and current data sources (including data from the American Medical Association, the American Hospital Association, government publications and surveys, and analyses of Medicare Provider of Services files) to classify health care provider ownership as: public, private (for-profit) and private (not-for-profit). We used US Census data to classify physicians' employers as public, not-for-profit or for-profit entities or 'self-employed.' We combined estimates from the official National Health Expenditures Accounts with other data sources to determine the public vs. private share of health care spending since 1923; we calculated a 'comprehensive' public share metric that accounted for public subsidization of private health expenditures, mostly via the tax exemption for employer-sponsored insurance plans or government purchase of such plans for public employees."

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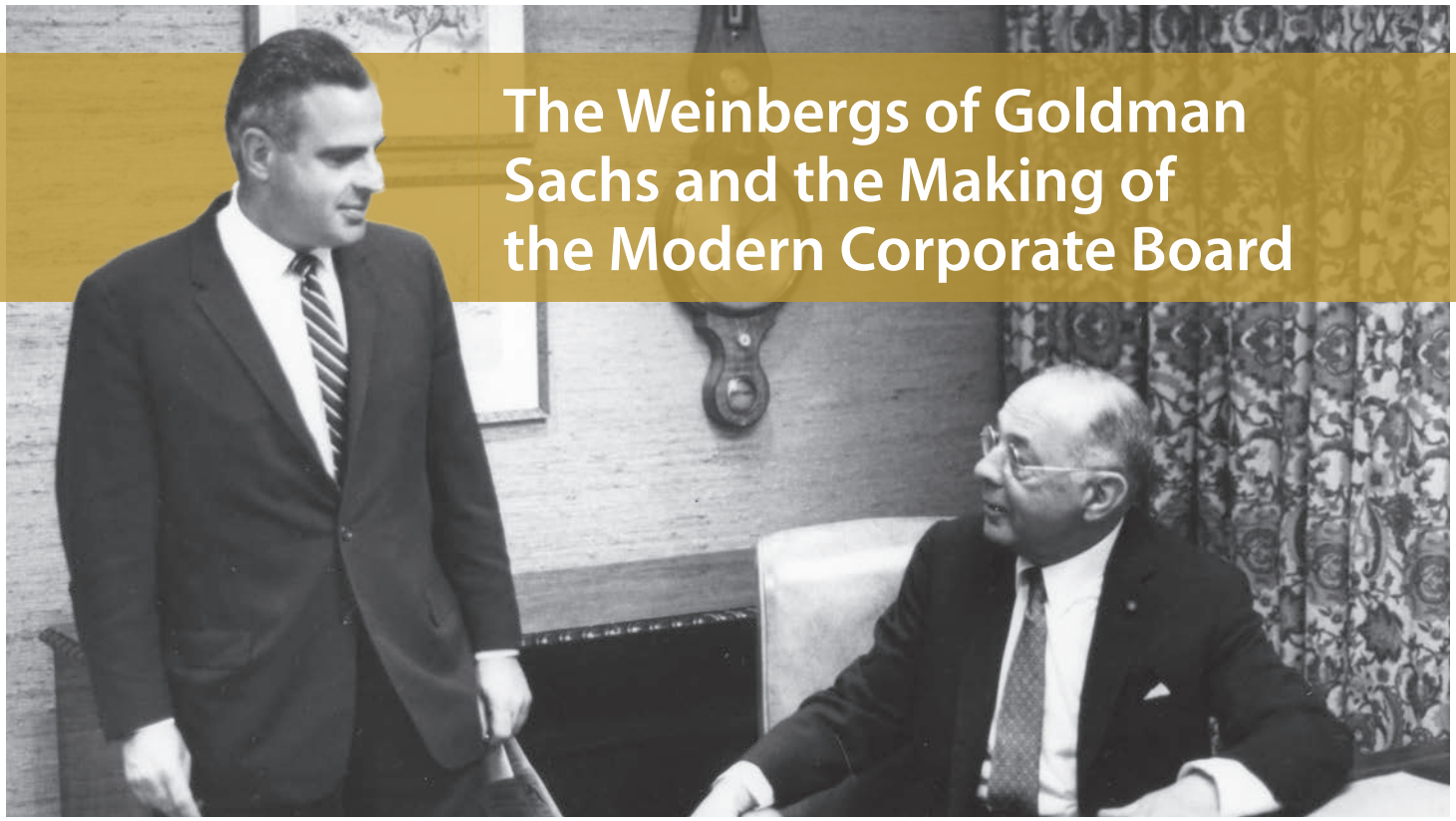
The Weinbergs of Goldman Sachs and the Making of the Modern Corporate Board



By Lawrence A. Cunningham

Today's debates over corporate purpose, social responsibility and director functions may seem unprecedented and unresolvable. However, fruitful discussions of such topics were occurring 75 years ago in the aftermath of the Great Depression and World Wars. Astute voices from that era are the father and son pair of Sidney J. Weinberg and John L. Weinberg. The two served as directors of scores of public companies and as legendary leaders of Goldman Sachs for a majority of the 20th century—Sidney from 1930 to 1969 and John from 1976 to 1990 (part of this time co-leading with John C. Whitehead). A decade later, John endowed the John L. Weinberg Center for Corporate Governance at the University of Delaware.

Sidney Weinberg (1891–1969) grew up in Brooklyn as one of 11 children of poor Jewish immigrants. He began his career at Goldman Sachs as a janitor's assistant. After dropping out of junior high school, his diligence and determination propelled him through the firm's mailroom and onto a trading desk, ultimately leading to his role as chairman.

Sidney J. Weinberg (seated) and his son John L. Weinberg (standing) each served as senior partner of Goldman Sachs, leading the firm for a majority of the 20th century.

Sidney became senior partner of Goldman Sachs in the wake of the Great Crash of 1929 after the collapse of the Goldman Sachs Trading Corporation (GSTC). A highly leveraged subsidiary like today's hedge funds, GSTC was the brainchild and downfall of Goldman's incumbent chair, Waddill Catchings. In 1930, Sidney joined the boards of several major American companies, including General Foods (which encompassed today's Post Brands), B.F. Goodrich (now part of Michelin), National Dairy (later Kraft) and Sears, Roebuck.

In 1933, inspired by lawsuits against distinguished directors of the period for failing to prevent fraud, Sidney wrote a memorandum outlining 11 principles of board oversight. These principles are durable and were expanded upon in Sidney's influential 1949 speech to the Harvard Business School Club of Cleveland entitled "The Functions of a Corporate Director." During his career, Sidney was a director of at least two dozen public companies and a prominent corporate leader. His obituary appeared on the front page of *The New York Times*, calling him "Mr. Wall Street" and "a director's director."

John Weinberg (1925–2006), raised in Scarsdale, New York, attended Deerfield Academy. During his senior year, he enlisted in the United States Marine Corps and led troops in World War II while still a teenager. After his service, Weinberg enrolled in Princeton University, along with a large cohort of fellow veterans, all possessing unusually worldly experience for undergraduates. At Princeton, John's senior thesis, *Status and Functions of Corporate Directors*, clearly drew on Sidney's speech, as well as his circle of corporate directors and business leaders.

After graduating Princeton with honors, John attended Harvard Business School before joining Goldman Sachs in 1950. From there, he took a leave of absence to rejoin the Marines to fight in the Korean War, advancing to the rank of captain. Finally, he returned to Goldman as an investment banker where he spent the rest of his career while also serving on at least 20 boards, including some his father served on plus Goldman Sachs, Knight-Ridder, Providian Financial and YUM Brands.

John's thesis—which has never before been published—provides a detailed elaboration of Sidney's speech and memorandum (the thesis runs approximately

30,000 words, while the other two together total about 5,500 words). While Sidney's work reflects worldly wisdom drawn from direct executive experience, John's thesis, based more on abstract study and observation, is absorbing, reflecting an insightful understanding of the topic and sense of its direction. All three of the Weinberg works—Sidney's memorandum, his speech and John's thesis—are among the earliest treatments of the functions, status and responsibilities of directors, marking the beginning of what would later evolve into the corporate governance field.

The Weinberg works, and the thesis most vividly, reflect the zeitgeist of their era while also capturing themes that resonate today. The enduring value of the Weinbergs' writings lies in how they transcend the specifics of their time. Revisiting this work offers a grounding perspective on the core values and principles that underpin corporate governance today.

Sidney's boardroom memorandum, "The Responsibility of Directors," was inspired by the fallout from the infamous fraudulent scheming of Ivar Kreuger. Known as the "Match King," Kreuger amassed a fortune by lending money to European governments in exchange for matchstick monopolies. Between 1913 and 1932, Kreuger built his family-owned company, Swedish Match, into a $600 million empire. Operating in 36 countries, he controlled 40% of the world's match production. It wasn't until after his suicide in 1932 that it was revealed to be a massive deception of pyramid schemes, forged documents and inflated earnings.

The fallout included lawsuits against the directors of Kreuger's companies, one of which inspired Sidney's memorandum. The board was a who's who of corporate America at the time, featuring prominent lawyers and bankers (including the founder of Allen & Company, a partner in J.P. Morgan & Co. and a Boston Brahmin), leading industrialists (such as a railroad executive, a sugar tycoon and a real estate magnate) and a scion of the Rockefeller dynasty. The board sought to have the lawsuit dismissed, but the court denied their request in an opinion dated June 4, 1933.

Sidney wrote his memorandum, dated June 21, 1933, for the CEOs of the companies whose boards he served, as well as fellow directors. Sidney highlighted the importance of directors being well-informed and actively engaged in the oversight of corporate affairs. He proposed a balanced approach, advocating that directors receive regular, comprehensive updates on company operations while ensuring that executive officers retain the ability to manage day-to-day activities efficiently. The memo underscored the need for a cooperative relationship between directors and executives, aiming to establish a code of procedure that would enhance accountability and governance within corporations.

Ironically, Sidney's 1949 speech was inspired by his own experience serving on the board of McKesson & Robbins amid a notorious fraud. The storied wholesale drug company, with roots dating to 1833, was sold in 1926 to Frank D. Coster, whose real name was Philip Musica. Musica's family were corrupt food importers who bribed dockworkers to inflate the weight of shipments. From 1909 to 1916, Philip and other family members were repeatedly arrested and jailed. After a stint working undercover for the district attorney, Musica returned to crime, including posing as president of a pharmaceutical company that fronted for a bootlegging operation. By 1926, with his name and identity changed, he seemed a respectable businessman and acquired control of McKesson & Robbins.

During the ensuing 13 years—while Sidney was on the board—Musica/Coster looted the company, stealing some $3 million by creating elaborate fictitious accounts. When the company treasurer finally smelled the rat, an SEC investigation resulted, finding a galactic failure not only of financial reporting but corporate governance. In 1939, Musica/Coster killed himself. It prompted reforms, beginning with the SEC's requirement of shareholder election of auditors, and it eventually led to board oversight through the audit committee.

Sidney's 1949 speech aimed to educate his fellow directors and improve board service across corporate America. Repeating and expanding on the 11 principles from his 1933 memorandum, Sidney added two more: have a company's chief accounting officer attend every board meeting and form a board audit committee comprised solely of outside directors to interact with the company's independent auditor. Sidney's advice was spot on: independent audit committees were eventually required for listed companies by the New York Stock Exchange from 1977 and for all public companies by the Sarbanes-Oxley Act of 2002.

Sidney published that speech the year after John submitted his thesis, which elucidates on themes of the speech and Sidney's memorandum. John's thesis provides an overall assessment of directors, encompassing contemporary corporate governance, structured into six chapters that address such topics as corporate social responsibility and the foundations of corporate administration (including board authority, the distinction between directors' and managers' roles, board composition, director liability and the profile of an ideal director). The Weinberg Center is preparing a volume featuring the thesis and reflections from 30 leading corporate governance experts on it—explored through lenses of policy, history and contemporary practice.

While the thesis focuses on practical aspects of boardroom life, it also engages with fundamental debates on the purpose of a corporation and the resulting role of directors. It explains that American industry in 1948 faced a critical test, addressing severe challenges to the free enterprise system. The business corporation, as a cornerstone of democratic capitalism, held a dominating position, and the board of directors played a crucial role in its performance. Yet there was a lively debate over the conception of corporations, veering from solely protecting stockholder interests to reconciling private enterprise with the social needs of a democratic system. John was informed by the famous contemporary debate between Adolf Berle and Merrick Dodd, which the thesis explained this way:

> One side [citing Berle] advocates an increased emphasis on the doctrine that managerial powers are held in trust for stockholders as sole beneficiaries of the corporate enterprise… The opposing attitude [citing Dodd] recognizes the need for protecting the stockholders against irresponsible actions of management, but this group perceives, as more important, the evolution of public opinion with regard to the social functions corporations should perform. Not only has the public become conscious of this new ideal, but many industrial leaders have also awakened to the new concept.

The Berle-Dodd debate and the transcendent issues it raises remain of central relevance today, as people disagree about whether corporations should prioritize shareholder value or promote social objectives. Equally resonant are the more mundane topics the thesis addresses—such as director selection, board size and shareholder engagement. While contexts have shifted, including the rise of institutional investors and the complexities of proxy voting, the underlying challenges persist.

The Weinbergs anticipated other developments, such as the importance of occupational diversity on boards, John asserting that "the wider the variety of occupations and experience, the greater the benefit to the corporation." Although their use of masculine pronouns reflects the norms of the era, the emphasis on diversity—now including gender and racial diversity—was ahead of its time. Sidney's 1949 endorsement of board gender diversity reflected his years of experience serving alongside the remarkable Marjorie Merriweather Post on the General Foods board.

Post was an extraordinary businesswoman who transformed the cereal company founded by her father, C.W. Post, into an industry powerhouse through a series of savvy mergers and marketing prowess. Post's 1936 appointment to the General Foods board was so notable for its time that it was reported on the front page of *The Wall Street Journal*. With a hands-on approach, she took the company beyond the cereal business and exerted influence through strategic investments. Post's success in the male-dominated corporate world proved that leadership and boardroom success were not exclusive to men, setting a powerful example for women in business. Sidney witnessed Post's business acumen firsthand, likely influencing his views on the value of women in the boardroom decades before this came to be widely appreciated.

Another prescient argument concerned director compensation, which differed greatly between the 1940s and today. While directors were often unpaid during that time, they now receive substantial remuneration, with NYSE company directors averaging $300,000 annually. John and Sidney appreciated this, arguing for well-compensated directors to meet the growing demands of the role—an argument that remains highly relevant.

Library of Congress

Sidney Weinberg, October 1942.

The Weinbergs' analysis of the legal underpinnings of corporate governance also holds true today, with only minor updates. Discussion of the board's statutory authority, the business judgment rule and the role of directors as a collective rather than individuals reflect principles that continue to shape governance. Above all, Sidney's repeated emphasis on the importance of information flows and John's mention of an "implicit" duty for directors to stay fully informed are foundational. The latter was codified in the landmark 1985 *Smith v. Van Gorkom* case.

Modern readers will also appreciate the emphasis throughout the Weinberg works on functions rather than features: John's thesis and Sidney's speech use the word "Functions" in both their titles. They focus on substance and purpose, not symbol or ritual. For example, John's thesis details the chairman's role and context while today many people advocate splitting the chair and CEO roles without a similar probe; the thesis focuses on functional skills, backgrounds and traits of ideal directors (the "desiderata") while today's governance often prioritizes skills matrixes, meeting length and recordkeeping. His partial solution was a professional cadre of directors, serving multiple non-competing organizations and earning their living from board service. The proposal mirrors the current trend toward professional board members.

The thesis stresses the value of the "discerning question." According to a contemporary scholar the thesis cites, Harvard Business School Professor John Baker, "the most effective directors...are those who ask the most discerning questions." That belief persists, as prominent critics, led by Harvard Business School Professor Myles Mace in his 1971 book,

John L. Weinberg

Directors: Myth and Reality, skewer boards for failing to pose the discerning question. Responses to this deficiency tended to focus on formalities rather than functions—from director independence to corporate compliance. In the process, while the discerning question remains a staple of business management thought, its importance to corporate governance may be underappreciated.

The foundational role of the board in corporate governance explains why the thesis and speech refer to the board as the corporation's "supreme" authority, akin to what scholars today might dub "director primacy." On the other hand, the Weinberg works stress that directors are ultimately beholden to stockholders, reflecting an enduring "shareholder primacy" norm, while allowing consideration of other constituencies. That is, the shape and function of the board of directors, in turn, influence the roles, functions and status of all other elements in the broader corporate governance ecosystem, beyond directors and shareholders.

While the Weinberg works touch on many elements of this broad stage, their primary interest, as the titles underscore, is the board of directors. John's thesis is emphatic about that focus even when discussing the fundamental questions of corporate purpose. He wrote:

> [R]esponsible capitalism is demanded… How will this social responsibility fit into the existing environment? Again the crucial position of the board of directors must be noted. Although the directors are selected by the stockholders of the corporation, their task is to manage the business in the interest of the investors, employees, customers and consumers of the company's products or services and in accordance with public policy as expressed in the laws of the land. To make a profit is basic. There can be no joint benefit if the corporation fails. However, after survival, the harmony of interests must occur.

The thesis addresses the tensions between conceptions of the corporation as primarily for stockholders or at least equally for other constituencies. It examines director roles and boardroom dynamics in light of these tensions, suggesting that neither extreme position is sustainable when directors need a practical framework to make decisions. However, the thesis wisely acknowledges that both viewpoints coexist—and always will. $

Lawrence A. Cunningham—a trustee of the Museum of American Finance and member of the Financial History *Editorial Board—serves as director of the John L. Weinberg Center for Corporate Governance at the University of Delaware, which marks its 25th anniversary in 2025. This article is adapted from a forthcoming commemorative volume produced by the Weinberg Center,* Boardroom Legacy: The Weinbergs of Goldman Sachs and the Evolution of Corporate Governance *(https://weinberg.udel.edu).*

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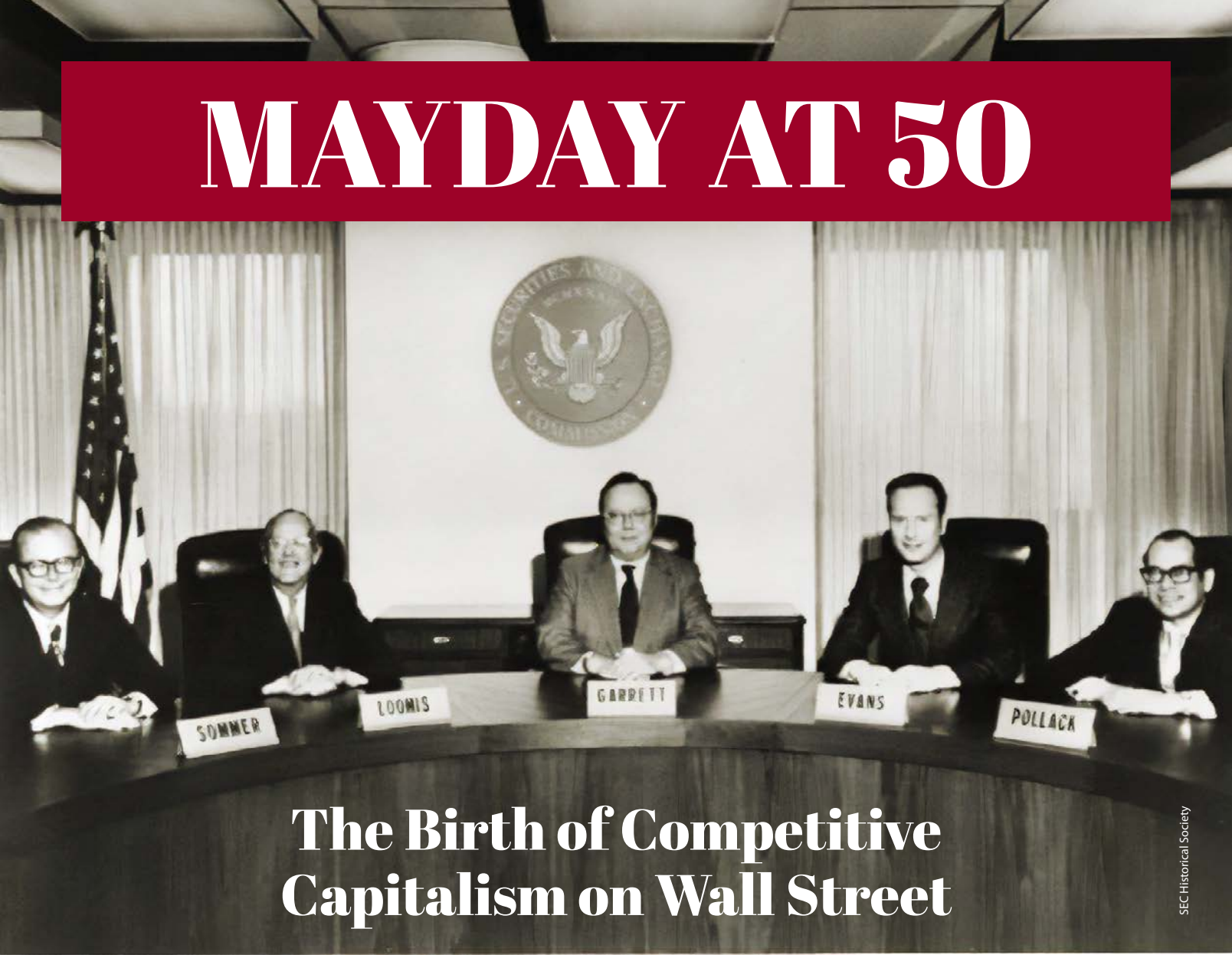
MAYDAY AT 50



SEC Historical Society

The Birth of Competitive Capitalism on Wall Street

By Christine Parker

For nearly two centuries, broker-dealers in the financial markets charged fixed commissions. Shielded by these price floors, brokerage firms prospered while innovation stagnated. By the 1960s, institutional investors—who had grown from 31% of public trading volume (shares) in 1963 to 57% by 1976 on the New York Stock Exchange (NYSE)—began lobbying for reform and routing large blocks of trades to "third markets" for significantly lower commissions. These market forces challenged the dominance of the NYSE and threatened its member firms' most prized tradition and dependable revenue source: fixed commissions.

1974 SEC Garrett Commission: A.A. Sommer Jr., Philip A. Loomis Jr., Ray Garrett Jr., John R. Evans and Irving M. Pollack.

Before Mayday, the NYSE collectively set minimum commission rates, which were submitted to the Securities and Exchange Commission (SEC) for approval. All member firms were required to adhere to these supracompetitive rates, thereby limiting price competition across the industry.

Although pressure for reform and radical change intensified, resistance within the NYSE remained strong. This may be partly understood through the lens of prospect theory: the perceived loss of guaranteed income is likely to be felt as more consequential than the uncertain benefits of modernization. For many firms, preserving the status quo outweighed the promise of a more dynamic market.

Yet several visionaries and reformers challenged the old order and sparked a revolution in how Wall Street conducted business before and after May 1, 1975, commonly referred to as "Mayday," when fixed-rate commissions were effectively abolished.

Robert W. Haack: The President Who Sounded the Alarm

Appointed president of the NYSE in 1967, Robert Haack—a Navy veteran and seasoned industry professional—stepped into leadership as Wall Street's infrastructure neared a breaking point. Trading volumes surged following news of the Vietnam War peace talks and had tripled over four years, triggering what became known as the "Paperwork Crisis of 1968." While trading activity expanded rapidly, the Exchange's back-office operations remained outdated and overwhelmed,

unable to keep pace with the modernizing front end of the market.

Manual trade processing between broker-dealers and transfer agents collapsed under the surging volume, resulting in settlement delays, costly errors and a sharp decline in investor confidence, which was further exacerbated by a broader market downturn. To manage the backlog, the NYSE began closing one day each week. More than 160 brokerage firms vanished, with half disappearing through mergers and the rest through closures. The crisis exposed Wall Street's fragile infrastructure, triggering an urgent need for reform. In 1970, Congress established the Securities Investor Protection Corporation (SIPC) to safeguard client assets at failed firms. In 1973, William T. Dentzer Jr. was named the founding executive director of the Depository Trust Company (DTC), created to centralize custody and automate settlement.

Haack responded decisively. He championed automation, advocated for centralized clearing and pushed to professionalize operations. While he initially defended fixed-rate commissions in congressional testimony, he shocked the industry on November 17, 1970, when he publicly called for their elimination. His remarks broke with decades of NYSE orthodoxy and positioned him as an unlikely reformer.

Haack's bold stance alienated the Exchange's board, and he stepped down at the end of his five-year term. However, his call to action compelled the NYSE to publicly acknowledge its underlying structural weaknesses and initiate an internal review, thereby setting in motion the debates that would ultimately lead to Mayday and the lasting transformations.

William McChesney Martin Jr.: Elder Statesman of Reform

In 1971, amid growing regulatory scrutiny and public pressure, the NYSE Board of Governors turned to a trusted elder statesman, William McChesney Martin Jr., to lead an independent inquiry into the Exchange's governance and structure. A former NYSE president, Army veteran and the longest-serving chair of the Federal Reserve, Martin was known for his integrity, pragmatism and deep respect for institutions. He agreed to take on the task—but only with complete autonomy, unrestricted access and a public commitment to transparency.

Martin's timing was pivotal. With Congress, the SEC, the Department of Justice (DOJ) and institutional investors calling for reform, his five-month review culminated in the influential *Martin Report*. It called for the establishment of a national market system, greater protection for small investors, and—most provocatively—the experimentation with negotiated commissions.

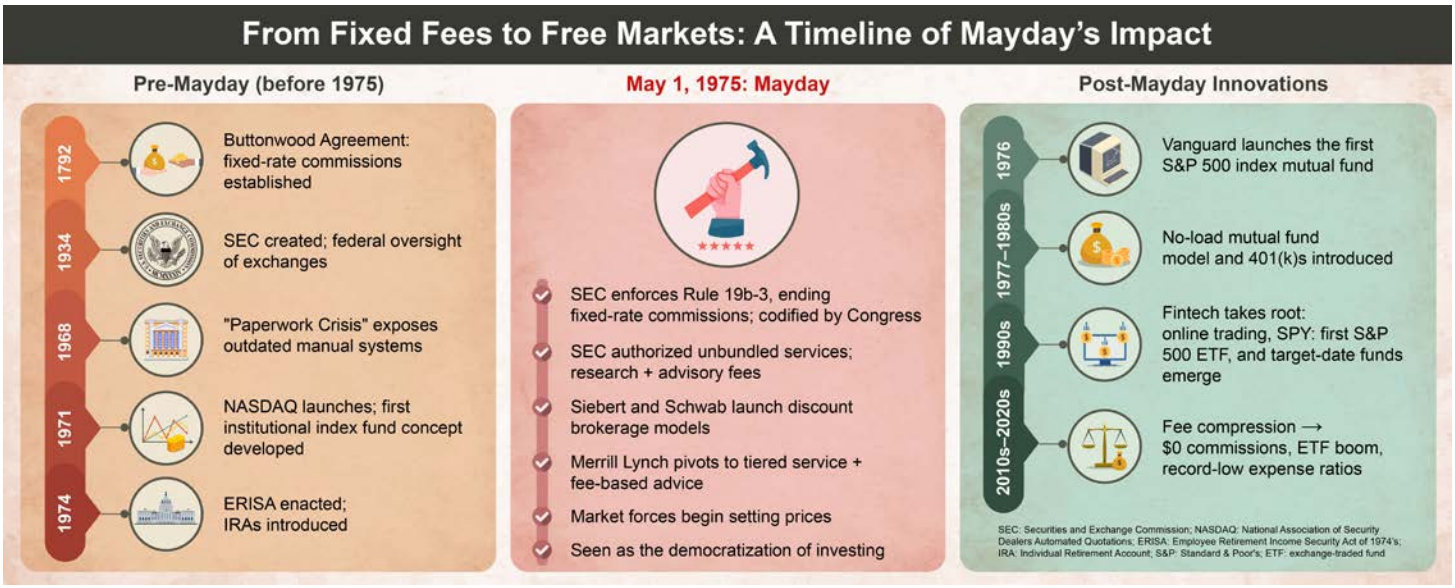
Although the recommendations were not binding, the SEC had begun a phased-in negotiated rates program that echoed Martin's proposals. In February 1971, big block trades exceeding $500,000 became negotiable. The threshold was lowered to $300,000 in 1972 and by April 1974, commission flexibility reached retail trades under $2,000. Martin's leadership bridged Wall Street tradition with rising competitive pressures, laying the regulatory and intellectual foundation for the sweeping reforms of Mayday 1975. His calm, principled approach lent credibility to a movement that would permanently reshape the US capital markets.

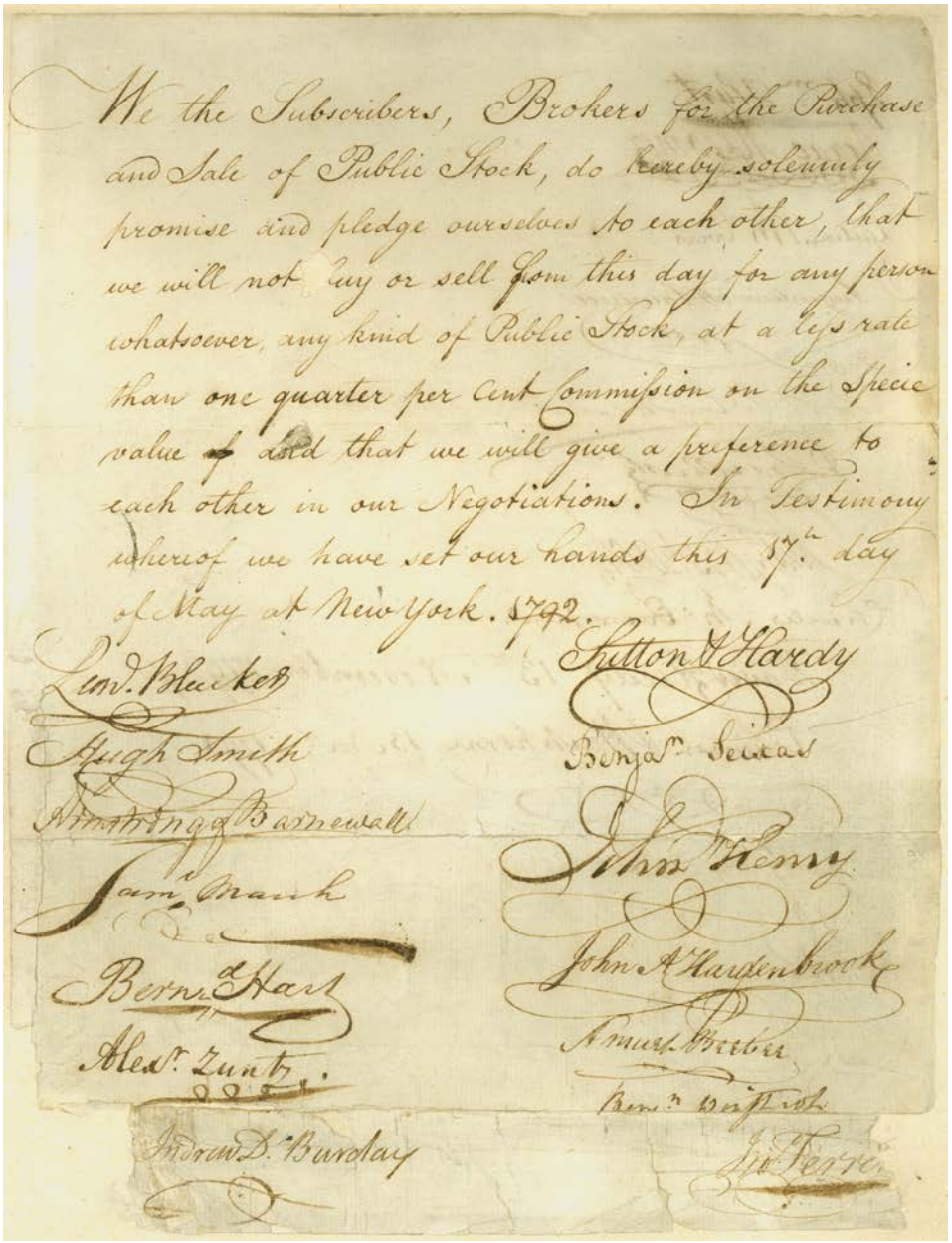
The Ford Administration: Regulatory Momentum

When Gerald R. Ford, Jr. assumed the presidency in 1974, the nation was reeling from the Watergate scandal, soaring inflation and the 1973 oil embargo. Unemployment peaked at 9% in May 1975, and public trust in institutions was at an all-time low. Ford launched the "Whip Inflation Now" (WIN) campaign and unveiled a comprehensive economic reform agenda. Central to his three-pronged approach to lower inflation was a focus on food and energy, anti-competitive practices and deregulation. The WIN slogan was abandoned a year later and inflation persisted, but the debate over regulatory reform continued.

Wall Street's Legacy Fee Structure Under Scrutiny

As institutional trading surged, the NYSE's rigid commission structure appeared increasingly out of step with the evolving market. Under mounting pressure, SEC Chairman Ray Garrett Jr. and Commissioners Loomis, Evans, Sommer and Pollack moved toward action. In July 1968, Eugene "Gene" Rotberg—an


From Fixed Fees to Free Markets: A Timeline of Mayday's Impact
Pre-Mayday (before 1975)
1792
Buttonwood Agreement: fixed-rate commissions established
1934
SEC created; federal oversight of exchanges
1968
"Paperwork Crisis" exposes outdated manual systems
1971
NASDAQ launches; first institutional index fund concept developed
1974
ERISA enacted; IRAs introduced
May 1, 1975: Mayday
SEC enforces Rule 19b-3, ending fixed-rate commissions; codified by Congress
SEC authorized unbundled services; research + advisory fees
Siebert and Schwab launch discount brokerage models
Merrill Lynch pivots to tiered service + fee-based advice
Market forces begin setting prices
Seen as the democratization of investing
Post-Mayday Innovations
1976
Vanguard launches the first S&P 500 index mutual fund
1977–1980s
No-load mutual fund model and 401(k)s introduced
1990s
Fintech takes root: online trading, SPY: first S&P 500 ETF, and target-date funds emerge
2010s–2020s
Fee compression → $0 commissions, ETF boom, record-low expense ratios
SEC: Securities and Exchange Commission; NASDAQ: National Association of Security Dealers Automated Quotations; ERISA: Employee Retirement Income Security Act of 1974's; IRA: Individual Retirement Account; S&P: Standard & Poor's; ETF: exchange-traded fund


We the Subscribers, Brokers for the Purchase and Sale of Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock, at a less rate than one quarter per Cent Commission on the Specie value & that we will give a preference to each other in our Negotiations. In Testimony whereof we have set our hands this 17th day of May at New York. 1792.
Sutton & Hardy
Benja. Seixas
John Henry
John A. Hardenbrook
Andrew D. Bardday

Courtesy of NYSE Group

On May 17, 1792, 24 brokers signed the Buttonwood Agreement, shown here, setting minimum commissions and paving the way for the NYSE. *Wall Street Journal* columnist Jason Zweig wrote that Mayday "may well have been the most momentous day on Wall Street" since then.

Army veteran and then associate director for market regulation and chief counsel in the SEC's Office of Policy Research—launched a series of inquiries and public hearings to examine commission structures, market competition and antitrust concerns, spurred in part by the DOJ's call for negotiated rates. These early efforts laid the groundwork for a sweeping regulatory shift, rooted in the conviction that competitive pricing would foster a more modern, transparent and investor-friendly marketplace.

The Vote to End Fixed Commissions

In January 1975, the SEC made its move. Commissioner A.A. Sommer Jr. expressed the agency's resolve that competitive commissions would usher in a fairer, more participatory market and dismissed fears of collapse. On January 23, the SEC adopted Rule 19b-3, abolishing the NYSE's authority to enforce fixed commissions. Effective May 1, broker-dealers would negotiate rates based on market forces. SEC Chairman Ray Garrett Jr. called it a "landmark moment."

Bettmann

Photograph of William McChesney Martin Jr., former NYSE president and longest-serving chair of the Federal Reserve. In 1971, amid growing regulatory scrutiny and public pressure, the NYSE Board of Governors turned to Martin to lead an independent inquiry into the Exchange's governance and structure.

In his Intelligent Investor column for *The Wall Street Journal*, Jason Zweig wrote that Mayday "may well have been the most momentous day on Wall Street" since the Buttonwood Agreement of 1792.

Mayday: A Quiet Revolution and a Cultural Moment

May 1, 1975, marked a seismic shift in financial history. Discount brokerages like Muriel Siebert & Co. seized the opportunity, offering best execution services at lower costs. It was not just a new pricing model; it was the beginning of a different Wall Street.

Muriel F. Siebert: Wall Street's Maverick

Muriel "Mickie" Siebert did not just face resistance—she faced a wall. In the same decade that women were marching for equal pay and demanding a voice in the workplace, the NYSE remained an all-male bastion. However, Siebert, fueled by conviction and determination, refused to back down. With support from two industry allies, James O'Brien of Salomon Brothers and Kenneth Ward of Hayden Stone & Co., she applied for membership, secured the required $445,000 and, on December 28, 1967, broke a 175-year precedent by becoming the first woman to own a seat on the NYSE. She stood alone among 1,365 men. Shortly after, she

founded Muriel Siebert & Co., launching her brokerage at a time when few women were even welcome on the trading floor.

On Mayday, Siebert emerged as a pioneer in the discount brokerage revolution. In response to the SEC's deregulation of fixed commissions, she slashed institutional trading fees by 40%. She launched execution-only services aligned with the Employee Retirement Income Security Act (ERISA) of 1974's new fiduciary rules. She faced backlash from her clearing firm and ridicule from her peers, but she ran the numbers and proved the model was effective.

Her marketing was creative and disruptive. One ad depicted a torn $100 bill and read: "How Muriel Siebert cuts your investment commissions 50%." Wall Street scoffed, but thousands of individual investors called in, seeking affordable and transparent service.

Driven by "pride, principle and profit," Siebert did not just build a legacy; she opened doors that had long been locked.

Charles R. Schwab: The Entrepreneur

Charles Schwab quietly dismantled Wall Street's century-old guard brokerage model. When Mayday abolished fixed commissions, legacy firms scrambled to protect profits. Schwab saw something else: freedom. When Merrill Lynch announced it would hike commissions under the new regime, Schwab went in the opposite direction—slashing rates, stripping down services and centering his firm on low-cost, investor-first principles.

It was not his first attempt. After two failed ventures in the industry, Schwab could have walked away. Instead, he founded a brokerage firm in 1971, which he later renamed Charles Schwab & Co.

Schwab opened his first branch in Sacramento, California, just months after Mayday. He bypassed traditional brokers and advertised directly to the public through newspaper ads. Critics dismissed him and tried to slow his growth, but Schwab continued to expand branch offices across the country.

In 1979, he went all-in, investing the equivalent of the firm's entire $500,000 net worth into a mainframe trading system to automate transactions and streamline operations. It was a high-stakes move—and a visionary one. He not only lowered costs but also reduced the barriers to entry.

AP Wire Photo/Historic Images

NYSE President Robert W. Haack (left) welcomes Merrill Lynch Chairman Donald T. Regan to the trading floor on July 7, 1971—the day Merrill Lynch became the first publicly traded securities firm listed on the Exchange.

Schwab transformed Wall Street to serve Main Street. His legacy is a cultural shift toward financial independence. More than just an entrepreneur, he was, in his own words, "[an] agent of change for the better."

Donald T. Regan and the Rise of the Full-Service Advisory Model

While Mayday 1975 ushered in an era of price competition among discount brokerages, Donald Regan—then chairman and CEO of Merrill Lynch, Pierce, Fenner & Smith—took a different path. Regan repositioned Merrill Lynch as a full-service financial institution grounded in professional advice, client trust and national scale. In 1971, Merrill Lynch became the first NYSE member firm to go public—an unprecedented move that reflected the industry's shifting landscape. That same year, Regan served on the advisory committee for the *Martin Report*.

In the lead-up to Mayday, Regan criticized fixed commissions as "two-faced"—an industry that professed free-market ideals while maintaining cartel-like pricing. He went further, calling the impending reform "a very healthy thing."

On May 1, Merrill launched a bold national ad campaign: "Any stockbroker can fill your order. Merrill Lynch thinks you need more than an order-taker." That same day, the SEC approved Merrill's

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THE Vanguard GROUP OF INVESTMENT COMPANIES
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First Index Investment Trust stock certificate, dated December 31, 1975. The fund was later renamed the Vanguard 500 Index.

petition to charge separately for investment advice—a key moment in the evolution of the fee-based advisory model.

As commission revenues declined, Regan worked swiftly to retain talent and preserve Merrill's institutional leadership. The firm petitioned the SEC to separate research services from execution costs, thereby preserving access to research at competitive rates. In June 1975, SEC Commissioner Philip A. Loomis Jr. affirmed the value of research, declaring, "Securities research is at the heart of the investment process." The White House supported legislation at that time, ensuring that money managers could continue to fund research within a market-based framework.

Regan's legacy is one of principled pragmatism—embracing reform while defending the enduring value of trusted financial advice, research and a full-service brokerage model.

John C. Bogle: The Indexing Revolution

In 1976, John Bogle, founder and former chief executive of the Vanguard Group, launched the Vanguard 500 Index Fund, introducing a radically simple idea: do not try to beat the market—match it; track the S&P 500 Index, minimize costs and let compounding do the work. In 1971, an *Institutional Investor Study Report* by the SEC found that competitive brokerage commissions would have a positive impact on the distribution of mutual funds.

Bogle's vision was shaped by his Princeton thesis and Paul Samuelson's 1974 essay, *Challenge to Judgment*, which argued that most active managers historically failed to consistentely outperform their benchmarks.

Bogle saw an opening. He leveraged Mayday's deregulated environment to bring low-cost indexing to the average investor. Critics derided it as "Bogle's Folly," claiming it was un-American to "surrender" investment decisions to a formula and efficient market hypothesis.

The initial offering of the Vanguard fund in 1976 raised $11 million—far short of its $150 million goal—but it marked the beginning of a groundbreaking shift in the industry. That same year, the S&P 500 Index was restructured to include 40 financial stocks for the first time, marking a pivotal shift in the financial sector's influence within the broader market.

Today, index investing is no longer a contrarian approach; it has become a mainstream strategy. In 2024 alone, three S&P 500 Exchange Traded Funds (ETFs)—BlackRock's IVV, State Street's SPY and Vanguard's VOO—captured nearly 20% of a record $1.5 trillion in global fund flows. With $2.1 trillion in combined assets and expense ratios as low as 0.03%, Bogle's vision has become the foundation of modern investing.

A Legislative Seal on Market Reform

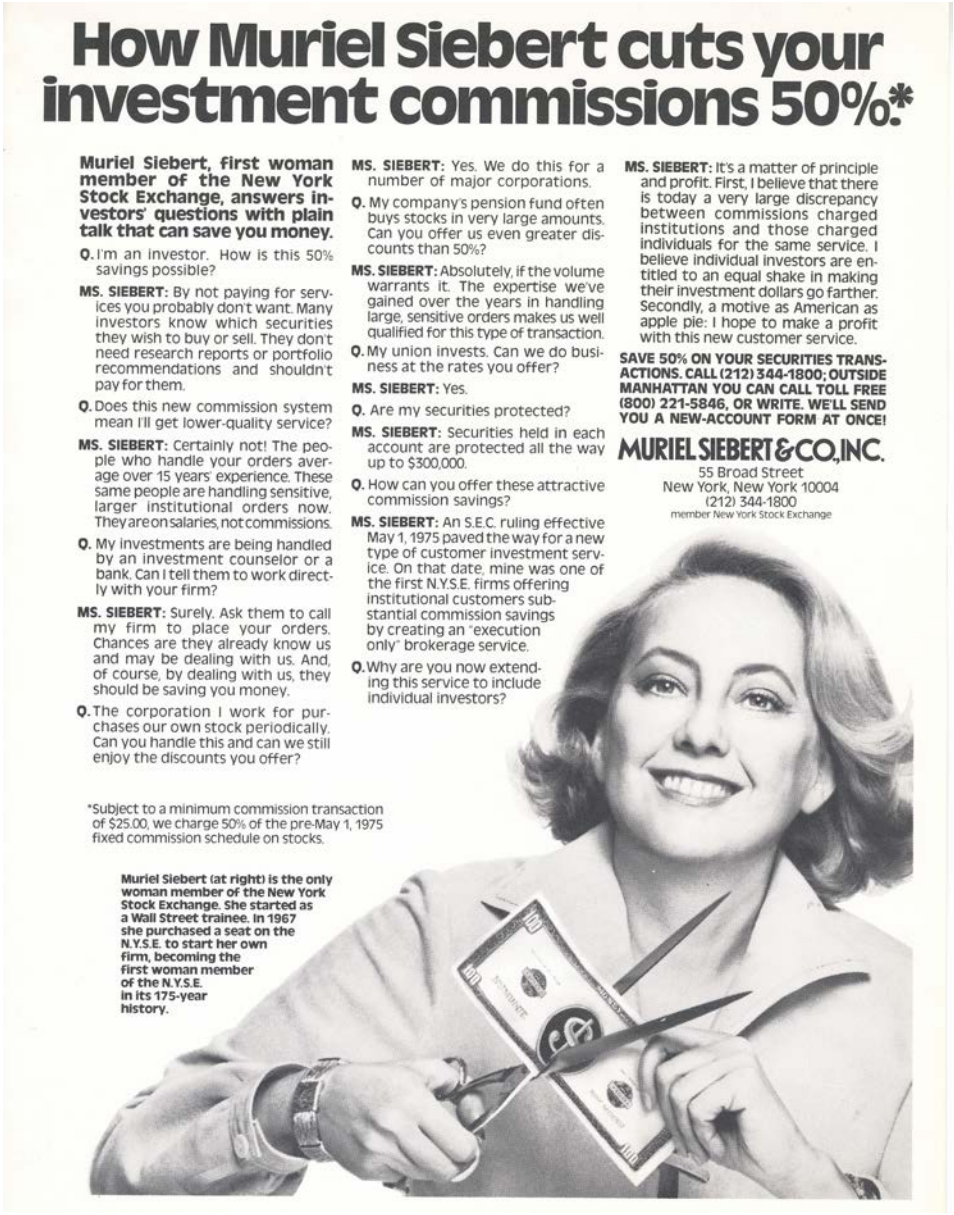
The Ford administration's regulatory agenda served as the culmination of a decade-long, bipartisan effort in Congress to modernize the US securities markets. Although fixed-rate commissions had been upheld under the Securities Exchange Act of 1934, growing pressure laid the groundwork for sweeping legislative change. That momentum reached its peak in June 1975, when Congress passed the Securities Acts Amendments of 1975, co-sponsored by Senators Harrison A. Williams (D-NJ), Edward W. Brooke (R-MA) and John G. Tower (R-TX). Signed into law by President Gerald R. Ford on June 4, 1975, the legislation formally codified the end of fixed brokerage commissions—effectively ratifying the Mayday reforms.

In addition to dismantling the commission cartel, the law authorized the establishment of a national market system (NMS) and a unified clearing and settlement framework to promote transparency and competition. It also introduced new requirements for registering municipal securities dealers. It mandated public disclosure of holdings and transactions by institutional investment managers, further aligning market operations with investor protection and regulatory oversight.

The Boomer Effect and the Enduring Legacy of Mayday

By 1975, the Mayday reforms arrived just as a generation was coming of age. Baby Boomers—born between 1946 and 1964—were entering the workforce, many of whom had returned from the Vietnam War at its end. Their economic emergence coincided with a pivotal shift in financial policy. Hence, the deregulation of brokerage commissions opened the capital markets to a generation eager to participate, save and build wealth.

One year earlier, Congress had enacted the ERISA, introducing fiduciary standards, creating Individual Retirement Accounts (IRAs) and reinforcing private pension protections. These developments aligned with the growing participation of Boomers in public programs like Social Security and Medicare. Together, these public and private systems established a financial safety net that remains essential for Boomers as retirees and family caregivers.



How Muriel Siebert cuts your investment commissions 50%.*

Muriel Siebert, first woman member of the New York Stock Exchange, answers investors' questions with plain talk that can save you money.

Q. I'm an investor. How is this 50% savings possible?

MS. SIEBERT: By not paying for services you probably don't want. Many investors know which securities they wish to buy or sell. They don't need research reports or portfolio recommendations and shouldn't pay for them.

Q. Does this new commission system mean I'll get lower-quality service?

MS. SIEBERT: Certainly not! The people who handle your orders average over 15 years' experience. These same people are handling sensitive, larger institutional orders now. They are on salaries, not commissions.

Q. My investments are being handled by an investment counselor or a bank. Can I tell them to work directly with your firm?

MS. SIEBERT: Surely. Ask them to call my firm to place your orders. Chances are they already know us and may be dealing with us. And, of course, by dealing with us, they should be saving you money.

Q. The corporation I work for purchases our own stock periodically. Can you handle this and can we still enjoy the discounts you offer?

MS. SIEBERT: Yes. We do this for a number of major corporations.

Q. My company's pension fund often buys stocks in very large amounts. Can you offer us even greater discounts than 50%?

MS. SIEBERT: Absolutely, if the volume warrants it. The expertise we've gained over the years in handling large, sensitive orders makes us well qualified for this type of transaction.

Q. My union invests. Can we do business at the rates you offer?

MS. SIEBERT: Yes.

Q. Are my securities protected?

MS. SIEBERT: Securities held in each account are protected all the way up to $300,000.

Q. How can you offer these attractive commission savings?

MS. SIEBERT: An S.E.C. ruling effective May 1, 1975 paved the way for a new type of customer investment service. On that date, mine was one of the first N.Y.S.E. firms offering institutional customers substantial commission savings by creating an "execution only" brokerage service.

Q. Why are you now extending this service to include individual investors?

MS. SIEBERT: It's a matter of principle and profit. First, I believe that there is today a very large discrepancy between commissions charged institutions and those charged individuals for the same service. I believe individual investors are entitled to an equal shake in making their investment dollars go farther. Secondly, a motive as American as apple pie: I hope to make a profit with this new customer service.

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*Subject to a minimum commission transaction of $25.00, we charge 50% of the pre-May 1, 1975 fixed commission schedule on stocks.

Muriel Siebert (at right) is the only woman member of the New York Stock Exchange. She started as a Wall Street trainee. In 1967 she purchased a seat on the N.Y.S.E. to start her own firm, becoming the first woman member of the N.Y.S.E. in its 175-year history.

Muriel Siebert Collection, Box 79, File 12, Baker Library, Harvard Business School

Muriel Siebert & Co. advertisement: "How Muriel Siebert Cuts Your Investment Commissions 50%." September 13, 1976.

Boomers helped restore US economic strength and reshape the financial services landscape. Their influence sparked decades of financial innovation. Consistent contributions to IRAs, 401(k)s and brokerage accounts channeled trillions of dollars into the capital markets, providing essential funding for business growth, entrepreneurship and job creation across the economy.

As the first Baby Boomers turn 80 in 2026, their influence will continue to shape the emerging silver economy, driving demand for wealth management, financial planning, digital tools and behavioral guidance. Controlling an estimated $86.53 trillion in assets today, Boomers remain a dominant force in shaping financial markets and household wealth.

Mayday marked the opening of Wall Street to market-based pricing, investor access and structural reform. It signaled the rise of discount brokerage firms, the unbundling of financial services, the growth of index funds and the emergence of financial advice and planning. Each of these developments was driven not by ideologues, but by pragmatic reformers who challenged an entrenched establishment, leaving a legacy that continues to shape modern finance. $

Christine Parker, CFP®, APMA®, CRPC®, CSRIC®, is the founder of Parker Financial, LLC, a fee-only registered investment advisory firm based in Maryland. The firm specializes in serving family fiduciaries and caregivers who manage significant financial responsibilities.

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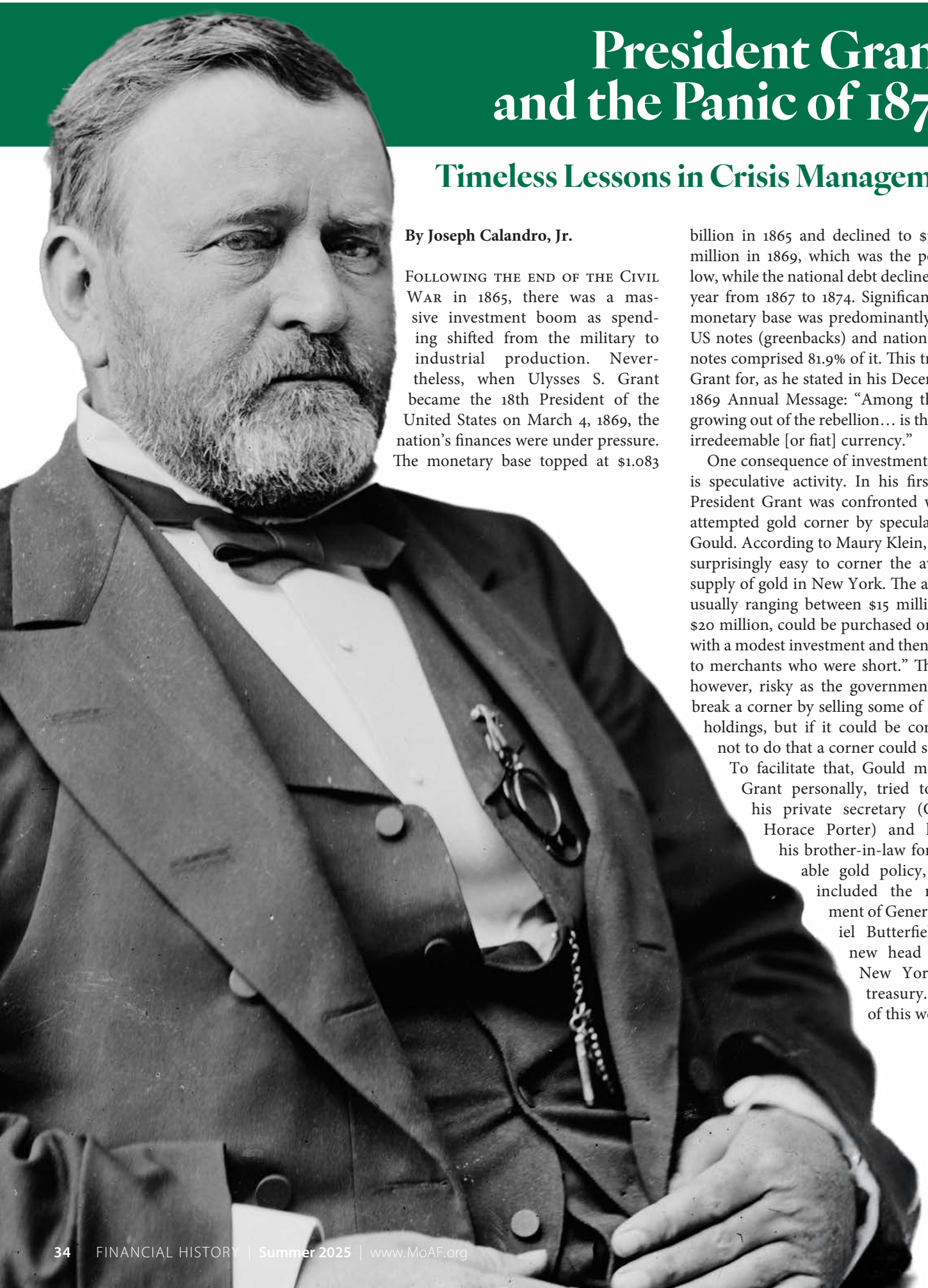
President Grant and the Panic of 1873

Timeless Lessons in Crisis Management



By Joseph Calandro, Jr.

Following the end of the Civil War in 1865, there was a massive investment boom as spending shifted from the military to industrial production. Nevertheless, when Ulysses S. Grant became the 18th President of the United States on March 4, 1869, the nation's finances were under pressure. The monetary base topped at $1.083 billion in 1865 and declined to $740.641 million in 1869, which was the post-war low, while the national debt declined every year from 1867 to 1874. Significantly, the monetary base was predominantly fiat as US notes (greenbacks) and national bank notes comprised 81.9% of it. This troubled Grant for, as he stated in his December 6, 1869 Annual Message: "Among the evils growing out of the rebellion… is that of an irredeemable [or fiat] currency."

One consequence of investment booms is speculative activity. In his first term, President Grant was confronted with an attempted gold corner by speculator Jay Gould. According to Maury Klein, "It was surprisingly easy to corner the available supply of gold in New York. The amount, usually ranging between $15 million and $20 million, could be purchased on credit with a modest investment and then loaned to merchants who were short." This was, however, risky as the government could break a corner by selling some of its gold holdings, but if it could be convinced not to do that a corner could succeed. To facilitate that, Gould met with Grant personally, tried to bribe his private secretary (General Horace Porter) and lobbied his brother-in-law for favorable gold policy, which included the recruitment of General Daniel Butterfield, the new head of the New York subtreasury. None of this worked.

The story of how the gold corner was crushed has been told elsewhere, but it is generally not appreciated how well President Grant understood the financial dynamics surrounding the attempted corner. For example, on September 12, 1869, as gold prices became volatile due to Gould's trading, Grant wrote his then Treasury Secretary, George Boutwell, prior to the secretary's trip to New York:

> … on your arrival you will be met by the bulls and bears of Wall Street, and probably by merchants too, to induce you to sell gold, or pay the November interest in advance, on the one side, and to hold fast on the other. *The fact is, a desperate struggle is now taking place, and each party wants the government to help them out* (italics added). I write this letter to advise you of what I think you may expect, to put you on your guard.
>
> I think, from the lights before me, I would move on, without change, until the present struggle is over.

Grant did not bail out anyone, including his brother-in-law, which was consistent with the way he approached national finance in general; namely, by focusing on the real economy without regard to special interests (including speculative finance and partisan politics). Differentiating the real economy from the financial one is a modern distinction, which begs the question of what President Grant's economic/financial philosophy was, and how he formed it.

Library of Congress

Cartoon depicting the scene outside Jay Cooke & Company's office during the Panic of 1873.

Grant did not receive formal economics/financial training, and he adhered to no particular school of thought as far as I could detect. However, he also did not receive formal general officer training, and therefore his many battlefield successes resulted from the way he thought through problems and issues in the context of the strategic situation at hand. Such an approach is consistent with the way he approached national finance with one exception: Grant worked in the context of orthodox economic thinking at the time, which held "a limited role to government. Most mainline politicians thought its principle responsibility in managing the money supply was to ensure a 'sound' currency and otherwise keep its hands off." This philosophy would be tested in 1873.

The Panic of 1873

The euphoria generated by the abnormal returns of an investment boom carries many investors away. This was seen during the "new economy" boom of the 1990s and the "new paradigm" boom that resulted in the 2007–08 financial crisis. The same dynamic occurred in the early-1870s, which is understandable given all the changes that were occurring at the time such as the first age of globalization that commonly dates from 1870 to 1914 (with the start of World War I), and simultaneously booming financial markets in Berlin, New York and Vienna. Many people therefore knew their age "really was different," but such thoughts helped facilitate the speculative behavior characteristic of all booms.

Nobody knows—or can know—when a boom will end in real time, but the 1873

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Check for one pound sterling payable to John Thompson and signed by Jay Cooke, August 16, 1873. Jay Cooke & Co. was the highest-profile casualty of the Panic of 1873. On the verge of a $300-million loan from the federal government, Cooke & Co. declared bankruptcy on September 18, one day before this check was presented.

"tipping point" came on September 18 with the failure of banker Jay Cooke. To understand how Cooke failed, note that he was the government's bond salesman during the Civil War. After the war ended, he was "in search of new business opportunities," which meant railroads given their scope. Due to globalization, Cooke could seek both foreign and domestic investors facilitated, in part, by his governmental connections and therefore he committed to finance the massive Northern Pacific Railroad even though he was "a late comer to railroad finance." Unfortunately, the economy was slowing-to-distressed at the time and Cooke was unable to place/sell significant amounts of the Northern's bonds, which at a minimum contributed to his failure. The resulting panic "was soon to engulf the entire country and spread across the Atlantic." The impact on the financial markets was acute: annual call money rates spiked to 14.25% from 8.34% the year before, a 70.9% increase and the period high. Monthly call money rates ranged from a low of 3.8% to a high of 61.23% with an "extreme quotation" of 360%!

Library of Congress

The New York Clearing House (NYCH) Association building on Cedar Street in New York City. NYCH was created in 1853 by larger commercial banks to provide central bank-like services for its members. It was effective in that role as relatively few commercial banks failed during the Panic of 1873.

Pleas for the government to help by inflating the currency occurred immediately. "As in the previous decade, the industry's trade organizations and trade publications spearheaded the soft-money drive." Grant was therefore under pressure to "do something" as industry and media barons have long donated money to, and attempted to influence, politicians. For example, on September 19, 1873—the day after Cooke's failure—Senator Oliver Norton wrote to Grant claiming an "imminent danger of [a] General national bank panic tomorrow (Saturday) unless" the government released its $44 million US notes reserve. Grant refused stating in his reply of the same date, "All assistance of the govt. seems to go to people who do not need it but who avail themselves of the present depressed state of the stock market to buy dividend paying securities, thus absorbing all assistance without meeting the real wants of the country at large." Note the distinction between people in need (the real economy) and those using governmental money to fund their investment activity (the financial economy). Nevertheless, later the same day Treasury Secretary William Richardson allocated $10 million of the reserve to buy government bonds stating he would, "limit the amount to about $12 million and stop there; and if all the banks suspend by agreement, I would stop at once. I don't think it is well to undertake to furnish from the Treasury all the money that frenzied people may call for."

One constant of financial panics is that excessive leverage magnifies losses, which means adverse events can suddenly manifest, which occurred here for the next day—September 20, 1873—the stock market "closed until further notice." The following week, the markets remained distressed and thus $14 million of the US notes reserve was allocated to bond purchases with Grant observing on that date, "no Government efforts will avail without the active co-operation of the banks and moneyed corporations of the country." This was significant for as soon as the panic began, the New York Clearing House (NYCH) responded just as it responded to "the banking disturbances in 1860 and 1861, that is, by authorizing the issue of loan certificates and the equalization of reserves among the member banks."

By way of background, the NYCH was created in 1853 by larger commercial banks to provide central bank-like services for its members. It was effective in that role as relatively few commercial banks failed during the Panic of 1873. Most of the failures and suspensions were "among private banks or brokerage houses," which funded speculation in the call money market. A key reason for the relative lack of bank failures was the equalization of reserves by the NYCH, which "enabled the seven large New York banks that held the bankers' balances to continue to pay out cash freely to interior banks." Therefore, through its actions the NYCH enabled "the ultra-liberal policy of continuing to pay out cash to the interior, which we do not observe in future panics," and which mitigated the effects of the Panic of 1873. Consequently, it may be asked: What did President Grant do?

First, he monitored developments intensely via his broad financial information network, which enabled him to take measured action *at the margin* to help mitigate financial distress. Thus, "By October 1 [1873]," which was the day after the stock market reopened, "the net addition to the currency by clearing-house certificates, use of government money, and other expedients was estimated at $50,000,000." The government's marginal portion of this ranged from 1.1% of the monetary base in 1872-to-1873 to 3% in 1873-to-1874. In today's terms, one might say that Grant "learned by doing" during the panic, but he did so only at the margin to mitigate the impact his actions would have on the real economy.

Second, Grant kept pressure on the banking community to mitigate their

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The post-Civil War railroad boom was a prime cause of the Panic of 1873, and railroads were numerous among the casualties. That does not mean that railroad finance came to a halt, as indicated by this Rome, Watertown and Ogdensburgh (New York) Rail Road Company bond certificate for $1,000, issued July 1, 1874.

industry's distress themselves. For example, on October 19, 1873, he responded to a letter from the president of the Metropolitan Bank in New York City where he asked, "cannot the Bank Presidents be brought together and resolve to aid each other, and the business interests generally. The government then will do all in its power." Note that Grant's wording is a request not a question, and the request communicated his desire for banking to support the business of the real economy (in contrast with speculation in the financial economy) *before* the government did "all in its power." This sequence of roles and responsibilities is fundamental to Grant's approach to national finance.

Third, and contrary to modern practices, Grant did not deficit spend to mitigate panic-generated distress; on the contrary, he reduced the national debt by 0.8% in 1873!

Finally, "Grant's quiet leadership and steady hand, quite different from Franklin D. Roosevelt's public cheerleading in confronting the Great Depression 60 years later, did much to calm troubled waters." And with calmer waters the Panic of 1873 ended. However, the economy remained volatile (e.g., the stock market closed the year down 23.79%) so pleas for the government to help by inflating the currency continued.

The Currency Bill of 1874

Following the financial crisis of 2007–08, the Federal Reserve continued its inflationary strategy—quantitative easing—for another dozen or so years. While the Fed undertook many new initiatives after that crisis, their objective—inflate the post-panic money supply to stimulate economic activity—was not new. Grant was pressured to do the same thing after the Panic of 1873, which coalesced in the Currency Bill (Senate Bill No. 617) that would have significantly increased the monetary base. The bill passed both houses of Congress with a majority of the Republican party supporting it, and was sent to Grant for his signature.

Given the politics of the Currency (or Inflation) Bill, Grant considered it carefully, after which he decided to veto it despite both his party's endorsement and special interest pressures. His veto is consistent with the above comments on Grant's decision-making process; namely, making the right decision as he understood it without regard to special interests or partisan politics to the contrary. He announced the veto in a cabinet meeting on April 21, 1874, and followed up with a written explanation to Congress the next day.

The Specie Resumption Act of 1875

Monetary affairs remained foremost on Grant's mind following his veto. A reason for this was likely the composition of the monetary base. In 1873, fiat currencies (US notes/greenbacks and national bank notes) represented 82% of the monetary base, which increased to 82.4% in 1874 and would

increase again in 1875 to 82.8% (the period high). This trend concerned Grant and led to an important observation on June 1, 1874: "There is no question in my mind that *as to the fact* that the poorer currency [fiat] always will drive the better [specie] out of circulation" (italics original). This is Gresham's Law, and points to an atypical level of national financial understanding for a President. For example, consider President John F. Kennedy's complaint to advisor Ted Sorensen "that he had trouble distinguishing between the meaning of the words 'monetary' and 'fiscal.'"

President Grant also understood that fiat currency can lead to credit expansion that, "begat a spirit of speculation—(the currency being of fluctuating value… [naturally became a subject of speculation in itself]…)—involving an extravagance & luxury not required for the happiness or prosperity of a people, and involving, both directly & indirectly, foreign indebtedness." This is significant because, first, it once again shows Grant's ability to differentiate speculative finance from the real economy. Second, Grant wrote it on December 7, 1874, which was the only year of his presidency when the national debt increased (by 0.8%).

During this time, Grant came to believe the time had come for the nation to return to the gold standard. As he explained in his Draft Annual Message of December 7, 1874: "Gold & Silver are now the recognized mediums of exchange the civilized world over; and to this we should return with the least practicable delay. In view of the pledges of the American Congress when our present Legal Tender system was adopted and debt contracted there should be no delay—certainly no unnecessary delays—in fixing, by legislation, a method by which we will return to a specie."

On January 14, 1875, President Grant signed the Specie Resumption Act (Senate Finance Bill No. 1044), "which fixes a date [January 1, 1879] when specie resumption shall commence." He also sought to raise revenue through tariffs and customs duties to pay down the national debt, which would fall by 0.9% in 1875 thereby exceeding the prior year's marginal increase.

Depression, Recovery and Prosperity

The effects of the Panic of 1873 were acute: the GDP Deflator fell at a compounded rate of –3% from 1873 to 1879, while the stock market fell by 23.79% in 1873 and 10.59% in 1874. This was likely a reason why the Republican Party "decisively lost the 1874 congressional elections."

Library of Congress

The front page of the September 29, 1873 edition of *The Daily Graphic* depicts panic, as a health officer, cleaning the garbage out of Wall Street.

The stock market fell by another 16.41% in 1875 due to widespread levels of financial distress (e.g., 7,740 businesses failed in 1875 compared to 5,183 failures in 1873). It fell again in 1876 (by 1.55%), which was the final full year of Grant's presidency. It then increased by 19.51% in 1877 and 24.87% in 1878. Significantly, those returns were generated even though the monetary aggregates *declined* in both of those years. Deflation, therefore, does not always negatively impact financial returns.

The impact of President Grant's actions was not just financial as Real GDP grew at a compounded rate of 2.8% from 1873 to 1878, which was the result Grant sought to achieve. Over the longer-term the economic impacts were even stronger. For example, it was previously noted that the first age of globalization dates from 1870 to 1914; according to David Stockman, those years also marked "America's greatest period of growth and wealth creation." This is confirmed by "the data" as Real GDP grew at a compounded rate of 3.4% from 1873 to 1914 with the population growing at a compounded rate of 2.1%, and a GDP Deflator of 0.1%.

The Grant administration established the financial foundation of this period based on three major achievements: (1) Reducing the national debt by 17.7%, (2) Calmly and deliberately leading the nation out of the Panic of 1873 and its aftermath without either radical currency inflation or deficit spending and (3) Setting the economy on a course back to the gold standard and a more specie-based monetary base.

Despite its successes—real and financial—President Grant's approach to financial panic/crisis management contrasts sharply with modern national financial policies, practices and beliefs, including the belief that deflation must be avoided at all costs. At a minimum, his approach and the results it helped generate should be rigorously reexamined given the current state of national finance in the United States, and the risks it poses. $

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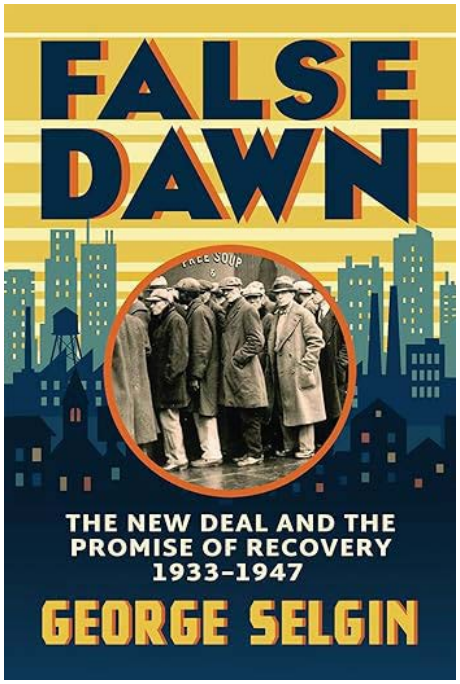

False Dawn
By George Selgin
The University of Chicago Press, 2025
370 pages, with notes and index
$35.00

The 1930s was a grim decade for the United States. Bread lines, unemployment, business failures. We'd had plenty of depressions and recessions before, but the depth of the Great Depression was like no other. Now, almost a 100 years later, there is no one answer as to where it came from.

Just as puzzling is why—with all the focus and efforts of the New Deal—the Great Depression lasted so long. Despite the efforts of President Franklin D. Roosevelt, his "brain trust" of advisors and dozens of new "alphabet soup" federal agencies and programs, economic vitality came back grudgingly in the 1930s.

In *False Dawn,* George Selgin of the University of Georgia tries to sort out what worked and what didn't in New Deal efforts to end the depression. Year-to-year and month-to-month, Selgin is in the details of the policies, agencies and economic debates of the New Deal. Did the New Deal hasten the end of the depression, or did the policies slow the recovery?

Selgin first reminds readers that the New Deal was defined by FDR as being more than just a tool to alleviate the country's immediate economic woes. "Relief" was only the first of the three Rs on which he "sold" the federal government's efforts. "Recovery," that is, restoring business activity to pre-depression levels, was next. And, finally, "Reform," whereby practices identified as causing or contributing to the depression were stopped or regulated. While these sound like they should work together easily, Selgin points out that they were often at odds with each other.

The US banking system was in bad shape when FDR took office in 1933, and it was the sector where immediate action was required. It was still very much a local business, with little oversight of branch loan practices leading to regular bank failures. Herbert Hoover had started programs to shore up banks, but New Deal efforts picked up the tempo to stop the "wave of fear" that had rippled through the American economy and sown doubt among savers. One unintended factor contributing to the slow build-back of bank capital was the increasing chaos and fear of instability in Europe. This sped net inflows of gold into the US banking system, which led to expanded credit.

The New Deal spawned many federal agencies. Selgin digs deep into the workings of the Agricultural Adjustment Administration (AAA), the National Recovery Administration (NRA) and the Home Owners Loan Corporation (HOLC). These were just three of many New Deal programs aimed at stabilizing key economic sectors and getting employment and purchasing power back on track. In Selgin's view, the NRA (which attempted to regulate industry practices nationwide) was an overall non-starter, confusing and regressive. The AAA and HOLC served their purposes by putting programs of guaranteed crop prices in place and slowing housing foreclosures. Both delivered on their goals but ended up taking on lives of their own, in existence well after the immediate need had ended. "Mission creep" is a continuing theme of Selgin's narrative of the New Deal.

As the author details the activities of agencies and individuals involved in the New Deal, he stops periodically to explore the intellectual rigor and debates behind it. It turns out, there was no overarching plan; no grand strategy. FDR comes across as sort of a pedestrian, reacting to suggestions from his advisors, his views changing by the week. Of course, it is hard to fault him for trying almost anything, given the economic conditions.

One area where FDR was consistent was his belief that the business community held a big share of the blame for the Great Depression. And he continued to express this attitude publicly as the country slipped into the "Roosevelt Recession," another stall in business activity, in 1937. Selgin points to a pull back in government spending and bank lending, as well as the lack of investment by industry, to explain this setback for recovery. In 1938, business starts to find its footing and activity picks up.

Selgin spends some time de-bunking what he calls the "Keynesian myth," the idea that Keynes's theories of enhanced government spending played a key role in recovery. Keynes did meet with FDR, but to little effect. Yes, there were increases in federal budgets, but these were nothing compared to the spending that commenced after Pearl Harbor and paced the economy through WWII.

Even as the New Deal unfolded there were debates and disagreements among economists and administrators on the efficacy and impact of the government programs. The "brain trust" (mostly academics who would spend relatively short times in government) had strongly held opinions, many of which Selgin recounts and explores. Hardly a page in *False Dawn* is without reference to another paper or interview with a participant. The book is a compendium of New Deal theory and practice.

So? Did the New Deal "medicine" cure the patient, or prolong the sickness? Selgin is even handed, giving credit where it is due. But it is clear he doubts that broad government intervention is the answer. We will have another financial crisis. He cautions that regulatory overreach is no match for the power and vibrancy of the free markets to pace economic activity. $

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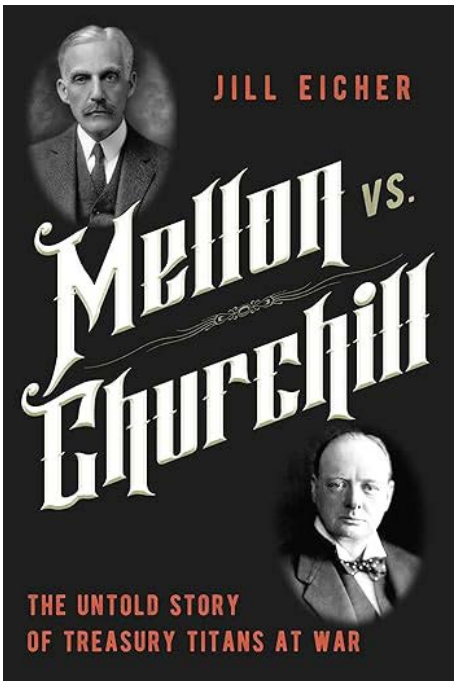

Mellon vs. Churchill: The Untold Story of Treasury Titans at War
By Jill Eicher
Pegasus Books, 2025
368 pages
$32.00

As is often the case for subtitles, the one for *Mellon vs. Churchill: The Untold Story of Treasury Titans at War* is exaggerated and only partially accurate. Jill Eicher has indeed uncovered some previously unpublished information about two financial leaders' views on an important issue. From 1924 to 1927, US Secretary of the Treasury Andrew Mellon and Great Britain's Chancellor of the Exchequer Winston Churchill frequently expressed their differences over the nature of more than $10 billion in loans the United States had granted its allies to finance their participation in World War I. Mellon continuously espoused the US government's position that the debts were valid and needed to be repaid. Churchill regularly voiced the opinion that those war debts should be forgiven. But those "titans" only met a handful of times; and they may or may not have used one of those occasions to have any face-to-face discussions about their disagreement.

In 1924, Mellon accepted President Warren Harding's invitation to become Secretary of the Treasury. In his 48 years as a banker, businessman and industrialist, he had long been a supporter of conservative Republican causes and political figures. That same year, Churchill accepted the invitation of Prime Minister Stanley Baldwin to become Great Britain's Chancellor of the Exchequer. He had spent the previous 29 years as a British statesman, military officer and writer.

The backstory of the Mellon-Churchill dispute is important. Great Britain made its first request for a cancellation of all war debts in February 1920. Former Treasury Department official and independent researcher Eicher tells of Congress's creation in 1922 of the World War Foreign Debt Commission to negotiate revised repayment terms with all the European debtors. She tells how a sympathetic Mellon was quite involved in the Harding and Coolidge administrations' efforts to adjust the terms of the debts they knew were hanging over the allies' efforts to revive their post-war economies.

Eicher describes the negotiations that led to a revised loan agreement with Great Britain in June 1923. That new contract converted His Majesty's demand notes into a 62-year term loan at a lowered interest rate of 3.5%. To blunt potential Senate opposition to additional agreements with even more lenient terms, Mellon reminded all those opposing additional adjustments that Belgium, France, Italy, et al. were not only the country's debtors, but also its best customers. Churchill had no role in those negotiations. But that did not stop him from using his pen and voice to express his displeasure with the proceedings.

The narrative picks up speed after November 1924, when Churchill used his new position as Chancellor to urge the United States to cancel its debts to his country, as well as the other allies. Throughout 1925, Mellon negotiated new debt repayment agreements with six other countries. Churchill was irritated when he learned that the United States had given many of them particularly lenient terms. In speeches and correspondence, he criticized the very idea of trying to collect "war debts" on any terms. At the same time, Mellon and his Treasury Department colleagues used their interviews and speeches to assert the validity of the country's recollection efforts.

Eicher acknowledges the importance of the contemporary newspaper accounts she discovered in various archives to uncover details of both Mellon's and Churchill's statements and writings. She uses photographs of some front pages and quotations from the articles to buttress her assertion that their disagreement was widely publicized and discussed. Yet, that major *cause célèbre* was not fully revealed or discussed by their respective biographers.

While keeping her focus on the loan agreements, Eicher intersperses her narrative with commentary on issues such as changes in the make-up of Great Britain's government, reciprocal tariffs, German reparations and Mellon's European vacations. Some are distracting. Others provide further signals of the protagonists' deep-seated views and add useful context to this informative deep dive into a "sausage-making" process that rarely gets attention. $

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TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. What father and son served as the legendary leaders of Goldman Sachs for a majority of the 20th century?

2. Who was President of the United States during the Panic of 1873?

3. What was the first open-end mutual fund in the United States, created in 1924?

4. What institution was created in 1853 by larger commercial banks to provide central bank-like services for its members?

5. What was the global reserve currency from 1815–1945?

6. In what year did Prohibition end, enabling the founding or reopening of more than 500 American breweries?

7. What early US health insurance plan had three million subscribers by 1939?

8. What day marked the end of fixed commissions on Wall Street?

9. What Wall Street legend launched the Vanguard 500 Index Fund in 1976 to bring low-cost indexing to the average investor?

10. What cities were home to the first three stock exchanges in the United States?

1. Sidney and John Weinberg **2.** Ulysses S. Grant **3.** The Massachusetts Investors Trust **4.** New York Clearing House (NYCH) **5.** British pound **6.** 1933 **7.** Blue Cross **8.** May Day (May 1, 1975) **9.** John C. Bogle **10.** Philadelphia, New York and Boston

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